
West Virginia Offices of the Insurance Commissioner

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

Financial Statements

Year Ended June 30, 2021



A Professional Limited Liability Company



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West Virginia Offices of the Insurance Commissioner

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INDEPENDENT AUDITOR'S REPORT

West Virginia Offices of the Insurance Commissioner
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the West Virginia Offices of the Insurance Commissioner, a special revenue fund and enterprise funds of the State of West Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements of the West Virginia Offices of the Insurance Commissioner, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the West Virginia Offices of the Insurance Commissioner at June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements of the West Virginia Offices of the Insurance Commissioner are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, and each major fund of the State of West Virginia that is attributable to the transactions of the West Virginia Offices of the Insurance Commissioner. They do not purport to, and do not present fairly the financial position of the State of West Virginia, as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the unaudited supplemental information on pages 46 through 50, and 53 through 58, and budgetary comparison information on pages 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Offices of the Insurance Commissioner's basic financial statements. The Workers' Compensation other supplementary information on pages 59 through 61 is presented for purposes of additional analysis of the financial statements and is not a required part of the basic financial statements. This supplementary 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 of America. In our opinion, this other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2021, on our consideration of the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the West Virginia Offices of the Insurance Commissioner's internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and compliance.



**Charleston, West Virginia
October 14, 2021**

Management's Discussion And Analysis

Management's Discussion And Analysis

This section of the West Virginia Offices of the Insurance Commissioner's annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2021 and June 30, 2020. Please read it in conjunction with the financial statements, which follow this section.

Overview Of The Financial Statements

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

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

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

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

**West Virginia Offices of the Insurance Commissioner
Management's Discussion and Analysis
June 30, 2021 (In Thousands)**

The following tables summarizes the financial position and results of operations of the West Virginia Offices of the Insurance Commissioner for the years ended June 30, 2021 and 2020.

Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current Assets	\$ 23,201	\$ 27,741	\$ 1,479,114	\$ 1,378,192	\$ 1,502,315	\$ 1,405,933
Capital Assets, Net	213	174	-	-	213	174
Other Long Term Receivable	150	158	-	-	150	158
Deferred Outflows of Resources	3,390	1,676	-	-	3,390	1,676
Total Assets and Deferred Outflows of Resources	<u>26,954</u>	<u>29,749</u>	<u>1,479,114</u>	<u>1,378,192</u>	<u>1,506,068</u>	<u>1,407,941</u>
Current Liabilities	2,545	1,758	143,423	153,071	145,968	154,829
Long-Term Liabilities	5,536	6,246	1,128,000	1,205,800	1,133,536	1,212,046
Deferred Inflows of Resources	4,108	3,446	-	-	4,108	3,446
Total Liabilities and Deferred Inflows of Resources	<u>12,189</u>	<u>11,450</u>	<u>1,271,423</u>	<u>1,358,871</u>	<u>1,283,612</u>	<u>1,370,321</u>
Net Position						
Invested in Capital Assets						
Net of Related Debt	213	174	-	-	213	174
Restricted	-	-	207,691	83,086	207,691	83,086
Unrestricted (Deficit)	14,552	18,125	-	(63,765)	14,552	(45,640)
Total Net Position	<u>\$ 14,765</u>	<u>\$ 18,299</u>	<u>\$ 207,691</u>	<u>\$ 19,321</u>	<u>\$ 222,456</u>	<u>\$ 37,620</u>

West Virginia Offices of the Insurance Commissioner
Statement of Activities and Changes in Net Position
For the Fiscal Year Ended June 30, 2021 (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues						
Charges for Services	\$ 37,107	\$ 35,917	\$ 11,567	\$ 9,301	\$ 48,674	\$ 45,218
Total Operating Revenues	37,107	35,917	11,567	9,301	48,674	45,218
Expenses						
Program Expenses						
Workers' Compensation	-	-	62,049	59,151	62,049	59,151
State Entities Workers' Compensation Program Fund	-	-	8,828	10,697	8,828	10,697
General Government	21,736	20,731	-	-	21,736	20,731
Total Operating Expenses	21,736	20,731	70,877	69,848	92,613	90,579
Operating Income (loss)	15,371	15,186	(59,310)	(60,547)	(43,939)	(45,361)
Nonoperating Revenues						
Investment Earnings	1	9	228,679	53,515	228,680	53,524
Severance Tax	-	-	1	(2,255)	1	(2,255)
Total Nonoperating Revenues	1	9	228,680	51,260	228,681	51,269
Change in Net Position Before Reappropriations/Interfund Transfers	15,372	15,195	169,370	(9,287)	184,742	5,908
Reappropriation to State of West Virginia General Revenue	-	(15,000)	-	-	-	(15,000)
Payments on Behalf of the WVOIC	94	245	-	-	94	245
Interfund Transfers	(19,000)	-	19,000	-	-	-
Change in Net Position	(3,534)	440	188,370	(9,287)	184,836	(8,847)
Net Position, Beginning of Year	18,299	17,859	19,321	28,608	37,620	46,467
Net Position, End of Year	\$ 14,765	\$ 18,299	\$ 207,691	\$ 19,321	\$ 222,456	\$ 37,620

West Virginia Offices of the Insurance Commissioner Financial Highlights

Financial Highlights (In Thousands)

The overall financial position of the West Virginia Offices of the Insurance Commissioner increased during fiscal year 2021, with an overall increase in net position of \$184,836. At June 30, 2021 the West Virginia Offices of the Insurance Commissioner's total net position was \$222,456.

The West Virginia Offices of the Insurance Commissioner's total assets and deferred outflows of resources increased by \$98,127 during the year. The primary factor contributing to the increase in assets and deferred outflows of resources was the significant investment income earned during fiscal year 2021. An additional factor that contributed to the increase during the fiscal year was that no transfers of cash from the OIC's Operating Fund to the State's General Revenue Fund occurred during fiscal year 2021. All transfers of cash from the OIC's Operating Fund were transferred to the Worker's Compensation Old Fund during fiscal year 2021. The agency's total liabilities and deferred inflows of resources decreased by \$86,709 in fiscal year 2021. The decrease in liabilities and deferred inflows of resources was due to the anticipated reduction in outstanding claims liabilities due to proper claims management and the closed status of the two largest funds.

As of June 30, 2021, the Workers' Compensation Old Fund's deficit has been eradicated and the Fund has a net asset balance of \$57,610. The change in net position is an increase of \$121,375 from the prior fiscal year. The fiscal year 2021 increase in the Old Fund's net position is attributable to the robust investment returns earned during the year and the decrease in the claims liabilities. Consistent with expectations, the Workers' Compensation Old Fund's claims liabilities decreased by \$48,300 during fiscal year 2021. The decrease in the Old Fund's liabilities is inclusive of the impact of a reduction in the discount factor used from 3.5 percent in fiscal year 2020 to 3.0 percent for fiscal year 2021. The change in discount rate resulted in an increase to the Old Fund liability estimate of \$36,970. The Old Fund's invested assets generated \$170,908 in investment income, which is a 17.6 percent investment return for the year and exceeds the anticipated rate of return for the year.

The West Virginia Offices of the Insurance Commissioner experienced an increase of \$228,697 in the fair market value of its investments held during fiscal year 2021.

The Coal Worker's Pneumoconiosis Fund experienced an increase in net position of \$45,298 during fiscal year 2021. The increase was primarily attributable to investment income of \$40,031 earned during the year combined with positive claims development that decreased the estimated liabilities by \$23,200. The continued decreased liability estimates for the CWP Fund are an indication that the adverse development attributable to certain provisions included in the ACA, which made significant changes to the federal black lung act has now stabilized and that the future claims development in the CWP Fund will be consistent with the expectations for a run-off fund in the future.

On April 6, 2021, the WV Legislature passed Senate Bill 545, which permits the Insurance Commissioner to transfer cash from the OIC Operating Fund to the Workers' Compensation Old Fund during fiscal years 2020 through 2024, provided that a deficit balance existed in the Old Fund for the prior fiscal year. The OIC transferred \$20,000 from the OIC Operating Fund to the Old Fund during fiscal year 2021.

The OIC was able to successfully maintain operations during the continued global pandemic and did not experience a significant fiscal impact due to COVID-19 during fiscal year 2021.

Financial Statements

West Virginia Offices of the Insurance Commissioner
Statement of Net Position
June 30, 2021 (In Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 20,086	\$ 1,466,113	\$ 1,486,199
Receivables, Net:			
Statutory Allocations	-	15	15
Assessments	251	28	279
Employer Surcharge	2,842	-	2,842
Premiums	-	177	177
Other	22	1	23
Prepaid Assets	-	1,248	1,248
Loss Reserve Fund	-	11,532	11,532
Total Current Assets	<u>23,201</u>	<u>1,479,114</u>	<u>1,502,315</u>
Noncurrent Assets			
Other Receivables	150	-	150
Capital Assets, Net	213	-	213
Total Noncurrent Assets	<u>363</u>	<u>-</u>	<u>363</u>
Total Assets	<u>23,564</u>	<u>1,479,114</u>	<u>1,502,678</u>
Deferred Outflows of Resources			
Deferred outflows related to pension	2,870	-	2,870
Deferred outflows related to other post-employment benefit	520	-	520
Total Deferred Outflows of Resources	<u>3,390</u>	<u>-</u>	<u>3,390</u>
Total Assets and Deferred Outflows of Resources	<u>26,954</u>	<u>1,479,114</u>	<u>1,506,068</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	140,200	140,200
Compensated Absences	554	-	554
Accrued Expenses and Other Liabilities	1,991	3,223	5,214
Total Current Liabilities	<u>2,545</u>	<u>143,423</u>	<u>145,968</u>
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,128,000	1,128,000
Net Pension Liability	3,835	-	3,835
Compensated Absences	713	-	713
OPEB Liability	988	-	988
Total Noncurrent Liabilities	<u>5,536</u>	<u>1,128,000</u>	<u>1,133,536</u>
Total Liabilities	<u>8,081</u>	<u>1,271,423</u>	<u>1,279,504</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	470	-	470
Deferred inflows related to other post-employment benefit	3,638	-	3,638
Total Deferred Inflows of Resources	<u>4,108</u>	<u>-</u>	<u>4,108</u>
Total Liabilities and Deferred Inflows of Resources	<u>12,189</u>	<u>1,271,423</u>	<u>1,283,612</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	213	-	213
Restricted for:			
WC Old Fund	-	57,610	57,610
Coal Workers' Pneumoconiosis	-	61,581	61,581
Uninsured Fund	-	16,456	16,456
Self-Insured Funds	-	58,239	58,239
State Entities Workers' Compensation			
Program Fund	-	13,805	13,805
Unrestricted	14,552	-	14,552
Total Net Position	<u>\$ 14,765</u>	<u>\$ 207,691</u>	<u>\$ 222,456</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Activities
For the Fiscal Year Ended June 30, 2021 (In Thousands)

Functions/Programs	Expenses and Claims Provisions	Program Revenues	Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Governmental Activities	Business-Type Activities	Totals
Primary Government					
Governmental Activities					
General Government	\$ 21,719	\$ 37,107	\$ 15,388	\$ -	\$ 15,388
Depreciation, Unallocated	17	-	(17)	-	(17)
Total Governmental Activities	<u>21,736</u>	<u>37,107</u>	<u>15,371</u>	<u>-</u>	<u>15,371</u>
Business-type Activities					
Workers' Compensation	62,049	2,637	-	(59,412)	(59,412)
State Entities Workers' Compensation Program Fund	8,828	8,930	-	102	102
Total Business-Type Activities	<u>70,877</u>	<u>11,567</u>	<u>-</u>	<u>(59,310)</u>	<u>(59,310)</u>
Total Primary Government	<u>\$ 92,613</u>	<u>\$ 48,674</u>	<u>15,371</u>	<u>(59,310)</u>	<u>(43,939)</u>
General Revenues:					
Investment Earnings			1	228,679	228,680
Severance Tax			-	1	1
Total General Revenues			<u>1</u>	<u>228,680</u>	<u>228,681</u>
Change in Net Position Before Interfund Transfers			15,372	169,370	184,742
Payments on Behalf of the WVOIC Interfund Transfers			94	-	94
			<u>(19,000)</u>	<u>19,000</u>	<u>-</u>
Change in Net Position			(3,534)	188,370	184,836
Net Position, Beginning of year			<u>18,299</u>	<u>19,321</u>	<u>37,620</u>
Net Position, End of Year			<u>\$ 14,765</u>	<u>\$ 207,691</u>	<u>\$ 222,456</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Governmental Fund
June 30, 2021 (In Thousands)

	<u>Operating Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 20,086
Accounts Receivable – Assessments	251
Accounts Receivable – Employer Surcharge	2,842
Accounts Receivable - Other	22
Total Assets	<u>\$ 23,201</u>
LIABILITIES	
Compensated Absences	\$ 554
Accrued Expenses and Other Liabilities	1,991
Total Liabilities	<u>2,545</u>
Fund Balance	
Committed	<u>20,656</u>
Total Fund Balance	<u>20,656</u>
Total Liabilities and Fund Balances	<u>\$ 23,201</u>
Total Fund Balance	\$ 20,656
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds	213
Deferred outflows of resources are not financial resources and therefore are not reported in the funds	3,390
Arrears Pay is not a financial resource and therefore is not reported in the funds	150
Net Pension liability is not due and payable in the current period and therefore are not reported in the funds	(3,835)
Long Term Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	(713)
OPEB liability is not due and payable in the current period and therefore are not reported in the funds	(988)
Deferred inflows of resources are not financial resources and therefore are not reported in the funds	<u>(4,108)</u>
Net Position of Governmental Activities	<u>\$ 14,765</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
For the Fiscal Year Ended June 30, 2021 (In Thousands)

	<u>Operating Fund</u>
REVENUES	
Fees, Assessments, and Other	\$ 37,107
Investment Earnings	1
Total Revenues	<u>37,108</u>
EXPENDITURES	
General and Administrative	<u>23,529</u>
Total Expenditures	<u>23,529</u>
Excess of Revenues over Expenditures	13,579
Payments on Behalf of the WVOIC	94
Interfund Transfers	<u>(19,000)</u>
Net Change in Fund Balance	(5,327)
Fund Balance, Beginning of year	<u>25,983</u>
Fund Balance, End of Year	<u>\$ 20,656</u>
Net Change in Fund Balance	\$ (5,327)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	1,090
Contributions to OPEB in the current fiscal year are not included in the Statement of Activities	398
Net Pension Expense does not require the use of current financial resources and therefore is not reported in governmental funds	(753)
OPEB Expense does not require the use of current financial resources and therefore is not reported in governmental funds	1,178
Change in OPEB contributions are not included in the Statement of Activities	-
Change in Employer Contributions are not included in the Statement of Activities	(7)
Difference in Net pension balance is not included in the Statement of Activities	(1)
Arrears Pay does not require the use of current financial resources and therefore are not reported in governmental funds	(8)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenses over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period	37
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>(141)</u>
Change in Net Position of Governmental Activities	<u>\$ (3,534)</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Proprietary Funds
June 30, 2021 (In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>State Entities</u> <u>Workers'</u> <u>Compensation</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,452,789	\$ 13,324	\$ 1,466,113
Receivables, Net:			
Statutory Allocations	15	-	15
Assessments	28	-	28
Premiums	177	-	177
Other	-	1	1
Prepaid Assets	-	1,248	1,248
Loss Reserve Fund	-	11,532	11,532
Total Current Assets	<u>1,453,009</u>	<u>26,105</u>	<u>1,479,114</u>
 Total Assets	 <u>1,453,009</u>	 <u>26,105</u>	 <u>1,479,114</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	135,000	5,200	140,200
Accrued Expenses and			
Other Liabilities	3,223	-	3,223
Total Current Liabilities	<u>138,223</u>	<u>5,200</u>	<u>143,423</u>
Noncurrent Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	1,120,900	7,100	1,128,000
Total Noncurrent Liabilities	<u>1,120,900</u>	<u>7,100</u>	<u>1,128,000</u>
 Total Liabilities	 <u>1,259,123</u>	 <u>12,300</u>	 <u>1,271,423</u>
Net Position			
Restricted for:			
WC Old Fund	57,610	-	57,610
Coal Workers' Pneumoconiosis	61,581	-	61,581
Uninsured Fund	16,456	-	16,456
Self-Insured Funds	58,239	-	58,239
State Entities Workers'			
Compensation Program Fund	-	13,805	13,805
Total Net Position	<u>\$ 193,886</u>	<u>\$ 13,805</u>	<u>\$ 207,691</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Proprietary Funds
For the Fiscal Year Ended June 30, 2021 (In Thousands)

	Workers' Compensation	State Entities Workers' Compensation	Total
Operating Revenues			
Assessments	\$ 313	\$ -	\$ 313
Employer Surcharge	2,072	-	2,072
Premium Revenue, Net	219	8,930	9,149
Other Operating Revenue	33	-	33
Total Operating Revenue	<u>2,637</u>	<u>8,930</u>	<u>11,567</u>
Operating Expenses and Claims			
Provisions			
Claims and Claim Adjustment			
Provisions (See Note 5)	55,173	8,330	63,503
General and Administration	6,876	498	7,374
Total Operating Expenses	<u>62,049</u>	<u>8,828</u>	<u>70,877</u>
and Claims Provisions			
Operating Income (Loss)	<u>(59,412)</u>	<u>102</u>	<u>(59,310)</u>
Nonoperating Revenues			
Investment Earnings	228,709	(30)	228,679
Severance Tax, Net	1	-	1
Total Nonoperating Revenues	<u>228,710</u>	<u>(30)</u>	<u>228,680</u>
Change in Net Position Before Interfund Transfers	169,298	72	169,370
Payments on Behalf (from) the OIC			
Interfund Transfer	20,000	(1,000)	19,000
Change in Net Position	189,298	(928)	188,370
Total Net Position -			
Beginning of Year	<u>4,588</u>	<u>14,733</u>	<u>19,321</u>
Total Net Position -			
End of Year	<u>\$ 193,886</u>	<u>\$ 13,805</u>	<u>\$ 207,691</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2021 (In Thousands)

	Workers' Compensation	State Entities Workers' Compensation	Total
Cash Flows from Operating Activities			
Receipts from Fees and Assessments	\$ 2,083	\$ 16,641	\$ 18,724
Receipts from Employers and Policyholders	468	-	468
Receipts from Other Operating Revenues	33	-	33
Payments to Claimants and Providers	(135,473)	(8,188)	(143,661)
Payments for Premiums	-	(8,267)	(8,267)
Deposits into Loss Reserve Fund	-	(8,329)	(8,329)
Withdrawals from Loss Reserve Fund	-	8,188	8,188
Payments to Employees	(2)	-	(2)
Refunds for Debt Surcharge Overpayments	(9)	-	(9)
Payments to Suppliers	(13,023)	(101)	(13,124)
Net Cash (Used in) Provided by Operating Activities	<u>(145,923)</u>	<u>(56)</u>	<u>(145,979)</u>
Cash Flows from Noncapital Financing Activities			
Transfers (to)/from General Revenue Fund	<u>20,000</u>	<u>(1,000)</u>	<u>19,000</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>20,000</u>	<u>(1,000)</u>	<u>19,000</u>
Cash Flows from Investing Activities			
Investment Earnings	<u>228,709</u>	<u>17</u>	<u>228,726</u>
Net Cash Provided by Investing Activities	<u>228,709</u>	<u>17</u>	<u>228,726</u>
Net Increase (Decrease) in Cash and Cash Equivalents	102,786	(1,039)	101,747
Cash and Cash Equivalents - Beginning of Year	<u>1,350,003</u>	<u>14,363</u>	<u>1,364,366</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,452,789</u>	<u>\$ 13,324</u>	<u>\$ 1,466,113</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Operating (Loss) Income	\$ (59,412)	\$ 102	\$ (59,310)
Adjustments to Reconcile Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Net Change in Assets and Liabilities:			
Receivables, Net	(63)	-	(63)
Loss Reserve Fund	-	1,002	1,002
Prepaid Premiums	-	(160)	(160)
Estimated Liability for Claims and Claim Adjustment Expenses	(80,300)	(1,000)	(81,300)
Accrued Expenses and Other Liabilities	(6,148)	-	(6,148)
Net Cash (Used in) Provided by Operating Activities	<u>\$ (145,923)</u>	<u>\$ (56)</u>	<u>\$ (145,979)</u>

See accompanying notes.

Notes To Financial Statements

Notes to Financial Statements

1. Financial Reporting Entity

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

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

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

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

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

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

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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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

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

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

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

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

The Old Fund, the CWPF, the UEF, and the Self-Insured Employers' Funds are combined to comprise the Workers' Compensation Fund. For financial statement purposes, only the Workers' Compensation Fund is considered a reporting fund, and the statutorily created "funds" that comprise it are considered components of the fund. The Workers' Compensation Fund and the SEWC combine to comprise the proprietary funds reported in the financial statements. The West Virginia Offices of the Insurance Commissioner maintains an Operating Fund that is reported as the general fund for financial statement purposes. Certain general and administrative expenses of the other funds are paid from the Operating Fund. All transactions related to federal grants are also reported in the Operating Fund.

The financial statements of the West Virginia Offices of the Insurance Commissioner are intended to present the financial position and the changes in financial position and cash flows of only that portion of the financial reporting entity of the State of West Virginia that is attributable to the transactions of the West Virginia Offices of the Insurance Commissioner. They do not purport to, and do not, present the financial position of the State of West Virginia as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended.

2. Significant Accounting Policies

Basis of Presentation

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

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

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

The West Virginia Offices of the Insurance Commissioner is also subject to GASB Statement 40, Deposits and Investment Risk Disclosures - an amendment of GASB 3 (GASB 40), and GASB Statement 46, Net Assets Restricted by Enabling Legislation - an amendment to GASB 34 (GASB 46), and GASB Statement 45 Other Post-Employment Benefits (GASB 45), GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 (GASB 67), GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68), GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68 (GASB 71), and GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75).

Use of Estimates

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

Basis of Accounting

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

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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

Budgetary Data

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

Cash and Cash Equivalents

Cash on hand and held by the West Virginia State Treasurer for the benefit of the West Virginia Offices of the Insurance Commissioner on June 30, 2021, totaled \$27,264. Cash that is pooled with funds of other state agencies and invested by the West Virginia Investment Management Board (IMB) for the benefit of the West Virginia Offices of the Insurance Commissioner totals \$1,447,153, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$11,782. For purposes of the statement of cash flows, the West Virginia Offices of the Insurance Commissioner considers its share of the pooled deposits to be cash equivalents in accordance with GASB 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

Loss Reserve Fund

The Loss Reserve Fund consists of money on deposit with Zurich and Encova (formerly BrickStreet). The money on deposit with Zurich is utilized to pay claims and claims adjustment expenses of the SEWC for claims incurred prior to and including June 30, 2017 up to the retention level established by the insurance contract. The Final Close Out Agreement between the West Virginia Offices of the Insurance Commissioner and Zurich Insurance occurred on December 31, 2020 with the fourth and final loss adjustment for policy year 2016. The money on deposit with Encova is utilized to pay claims and claim adjustment expenses of the SEWC for claims incurred on or after July 1, 2017 up to the retention level established by the insurance contract.

Receivables

Net receivables at the date of the statement of net position represent management's best estimate of the net realizable value of taxes, fees, assessments, premiums and related revenue due as of June 30, 2021. All premiums receivable balances due to the West Virginia Offices of the Insurance Commissioner consist of past premiums due from defaulted employers for periods of coverage prior to June 30, 2005, from the former Workers' Compensation Commission. Due to the age of these remaining premium receivables, only the actual subsequent receipts are recognized in the financial statements unless the employer has entered into a bona fide repayment agreement with the State or if the employer is subject to a court ordered restitution agreement. The West Virginia Offices of the Insurance Commissioner also recognizes a receivable for fines assessed against and claims reimbursements amounts billed to uninsured employers.

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

Capital Assets

Capital assets are stated at cost. Depreciation for office equipment and furniture are computed using the straight-line method over the estimated economic useful lives, which typically range from 10 to 20 years. At June 30, 2021, cost of capital assets was \$1,001 with \$17 current depreciation expense and \$788 accumulated depreciation.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2021, deferred outflows in the statement of net position were composed of \$2,870 for Public Employees Retirement System (PERS) related to employer contributions made during the fiscal year and differences between expected and actual experience; and \$520 for Other Postemployment Benefits (OPEB) related to employer contributions made during

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

the current fiscal year, and changes in proportion and differences between employer contributions and proportionate share of contributions.

Estimated Liability for Unpaid Claims and Claim Adjustment Expense

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

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

Compensated Absences and Other Post-Employment Benefits

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

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

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

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2021 deferred inflows in the statement of net position were composed of \$470 for PERS related to the difference between projected and actual earnings on pension plan investments, differences in assumptions, and changes in proportion, and differences between employer contributions and the proportionate share of contributions; and \$3,638 for OPEB related to the difference between projected and actual experience, changes in proportion, differences between employer contributions and proportionate share of contributions, and differences between projected and actual investment earnings.

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

Other Operating Revenue

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

Transfers to the Old Fund

During fiscal year 2021, per Senate Bill 545, legislation permitted the Insurance Commissioner to transfer special revenue moneys contained in the Insurance Commission Fund to the Old Fund in any fiscal year in which the Insurance Commissioner has determined, and an independent auditor has attested thereto, that a deficit balance existed in the Old Fund for the prior fiscal year. During fiscal year 2021, the following transfers were made:

Fund Transferred From	Fund Name Transferred From	Amount Transferred (In thousands)	Transfer Date	Related Legislation
7152	OIC Operating Fund	\$ 10,000	11/06/2020	Code 23-2C-16
7152	OIC Operating Fund	5,000	03/10/2021	Code 23-2C-16
7152	OIC Operating Fund	5,000	06/08/2021	Code 23-2C-16
		<u>\$ 20,000</u>		

Net Position (Deficit)

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

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

Fund Balance

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

- Non-spendable fund balances – These include amounts that cannot be spent because they are in a non-spendable form, such as inventory, or prepaid expense amounts, or they are legally or contractually required to be maintained intact, such as the corpus of a permanent fund.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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

Newly Adopted Statements Issued by the GASB

The GASB has issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2019. This Statement (1) establishes specific criteria for identifying activities that should be reported as fiduciary activities (2) clarifies whether and how business-type activities should report their fiduciary activities (3) establishes a custodial fund classification to replace agency funds to eliminate confusion with agencies of the government (4) provides for the recognition of liabilities only when the government is compelled to disburse the resources and (5) requires a statement of changes in net position for all fiduciary fund classifications. The adoption of GASB Statement No. 84 did not have an impact on the financial statements.

The GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2020. This statement requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of the construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. The adoption of GASB Statement No. 89 did not have an impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

GASB has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after June 15, 2021. This statement requires lessees and lessors to report leases under a single model. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources for each lease. This Statement also requires additional notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The OIC has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

GASB has also issued Statement No. 91, *Conduit Debt Obligations*, which is effective for fiscal years beginning after December 15, 2021. The requirements of this Statement eliminate the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity or inconsistency. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The OIC has not yet determined the effect that the adoption of GASB Statement No. 91 may have on its financial statements.

GASB has also issued Statement No. 92, *Omnibus 2020*, which is effective for fiscal years beginning after June 15, 2021. The requirements of this Statement address a variety of items, including specific provisions regarding the following topics: (1) GASB Statement No. 87 Implementation; (2) intra-entity transfers of assets; (3) postemployment benefits; (4) government acquisitions; (5) risk financing and insurance related activities of public entity risk pools; and (6) fair value measurements and derivative instruments. The OIC has not yet determined the effect that the adoption of GASB Statement No. 92 may have on its financial statements.

GASB has also issued Statement No. 93, *Replacement of Interbank Offered Rates*. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. This Statement removes LIBOR as an appropriate benchmark to coincide with its cessation at the end of calendar year 2021. The new guidance also addresses accounting and financial reporting implications that result from a change or replacement of any interbank offered rate (IBOR) in both hedging derivative instruments and leases. The standard also identifies appropriate benchmark interest rates for hedging derivatives. The OIC has not yet determined the effect that the adoption of GASB Statement No. 93 may have on its financial statements.

GASB has also issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is effective for fiscal years beginning after June 15, 2022. The requirements of this Statement establish the definitions of Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions, but are outside of the scope of Lease or Service Concession Arrangement Guidance. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will require governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs. The OIC has not yet determined the effect that the adoption of GASB Statement No. 94 may have on its financial statements.

GASB has also issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for fiscal years beginning after June 15, 2022. The requirements of this Statement establish a definition for Subscription-Based Information Technology Arrangements (SBITA) which is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Generally, this statement will require a government to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. The statement also establishes guidance for the treatment of costs related to SBITA activities other than subscription payments. Those activities are: Preliminary Project Stage, Initial Implementation Stage, and Operation and Additional Implementation Stage. This Statement also requires a government to disclose essential information about the arrangement such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability. The OIC has not yet determined the effect that the adoption of GASB Statement No. 96 may have on its financial statements.

GASB has also issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*, parts of which were effective immediately, while other provisions are effective for reporting periods beginning after June 15, 2021. The provisions that were immediately effective required that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan that the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform and (2) limits the applicability of the financial burden criterion in GASB Statement No. 84 to defined benefit pension plans and defined OPEB plans

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administered through trusts. This Statement also requires that an IRC Section 457 Plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that arrangements under IRC Section 457 should be assessed as a potential fiduciary activity under GASB Statement No. 84. As part of the supersession of GASB Statement No. 32, this statement also requires that investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances. The portion of GASB Statement No. 97 that was effective immediately had no material impact on the financial statements. The OIC has not yet determined the effect that the adoption of the remaining portions of GASB Statement No. 97 may have on its financial statements.

3. Cash and Cash Equivalents

The West Virginia Offices of the Insurance Commissioner is permitted by the Code to invest certain funds in excess of current disbursement needs with the IMB. Investments are reported by the IMB at fair value and are accounted for by the West Virginia Offices of the Insurance Commissioner accordingly. Such funds are available to the West Virginia Offices of the Insurance Commissioner with overnight notice and are considered cash equivalents. Earnings for the IMB investment pools are determined monthly and distributed to pool participants at the beginning of the next month based on their pro rata participation in the pools.

During fiscal year 2021, stock holdings were limited to 30 percent of the Old Fund portfolio. The equity allocation was also limited to 30 percent of the Coal Worker’s Pneumoconiosis Fund. Because the assets are held in the pools, no other disclosure related to credit or market risk is required. However, market risk exists as the assets of the pools may decline in value because of an increase in interest rates or a decline in stock prices. Such market risk is borne by the participants in the pools.

Invested assets of the Worker’s Compensation Uninsured Employers’ Fund, the Self-Insured Security Risk Pool and the Self-Insured Guaranty Risk Pool were invested 30 percent in equity securities and 70 percent in fixed income like securities and cash during fiscal year 2021.

In accordance with GASB 40, the following risk disclosure and other information is provided for the West Virginia Offices of the Insurance Commissioner funds being held by the IMB and the BTI in the following investment pools (amounts in thousands, except share data).

West Virginia Investment Management Board (IMB) Investments

The West Virginia Offices of the Insurance Commissioner is a participant in several IMB investment pools. The footnotes following this schedule represent the investment pools as a whole.

The following schedule provides the value of the West Virginia Offices of the Insurance Commissioner’s balances in the various pools at June 30, 2021.

Investment Pool	WC Old Fund	CWPF	Uninsured	Self Insured Guaranty	Self Insured Security
Core Fixed Income	\$ 129,061	\$ 25,989	\$ 1,506	\$ 4,142	\$ 5,880
Large Cap Domestic Equity	153,094	35,133	2,392	5,639	7,906
Non-Large Cap Domestic Equity	26,839	6,144	412	975	1,382
Hedge Fund	160,637	48,755	3,243	7,716	11,005
International Equity	110,905	25,552	1,767	4,126	5,803
International Nonqualified	46,570	10,659	687	1,675	2,405
Short-Term Fixed Income	47,573	9,634	1,694	1,831	2,415
TIPS	109,547	25,097	1,693	4,000	5,672
Total Return Fixed Income	302,382	60,700	3,515	9,668	13,733
Total by Pool	\$ 1,086,608	\$ 247,663	\$ 16,909	\$ 39,772	\$ 56,201

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Non-Large Cap Domestic Equity

Credit Risk - The Pool's money market mutual fund investment and the Cash Collateral Account are exposed to credit risk. The money market mutual fund has the highest credit rating. The Cash Collateral Account is not rated.

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2021, the Pool held no securities that were subject to custodial credit risk. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. The money market mutual fund and the Cash Collateral Account are not subject to custodial credit risk. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk - The Pool is exposed to interest rate risk from its money market mutual fund investment and from the Cash Collateral Account. As of June 30, 2021, the money market mutual fund's weighted average maturity (WAM) was 41 days. Except for repurchase agreements that can have up to 95 days to maturity, investments in the Cash Collateral Account are limited to overnight investments. As of June 30, 2021, the WAM for the Cash Collateral Account was 1 day.

Foreign Currency Risk - The Pool is exposed to foreign currency risk through a foreign common stock denominated in Canadian Dollars with a fair value, in U.S. dollars, of \$6,561 as of June 30, 2021. The remaining foreign common stock investments as of June 30, 2021 are denominated in U.S. dollars.

Large Cap Domestic Equity

The Pool is exposed to credit risk and interest rate risk from its money market mutual fund investment. As of June 30, 2021, the money market mutual fund has the highest credit rating and has a weighted average maturity (WAM) of 41 days. The Pool is not exposed to concentration of credit risk, custodial credit risk, or foreign currency risk.

International Nonqualified

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2021, was \$219,112. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

Credit Risk - The Pool's money market mutual fund investment and Cash Collateral Account are exposed to credit risk. The money market mutual fund has the highest credit rating. The Cash Collateral Account is not rated.

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2021, the Pool held no securities that were subject to custodial credit risk. Securities on loan are collateralized to a minimum of 102 percent for the U.S. Dollar denominated loans and 105 percent for foreign denominated loans, and the collateral is held by the IMB's custodian in the name of the IMB. The money market mutual fund, the Cash Collateral Account, and the comingled equity fund are not subject to custodial credit risk. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk - The Pool is exposed to interest rate risk from its money market mutual fund investment and from the Cash Collateral Account. As of June 30, 2021, the money market mutual fund's weighted average maturity (WAM) was 41 days. Except for repurchase agreements that can have up to 95 days to maturity, investments in the Cash Collateral Account are limited to overnight investments. As of June 30, 2021, the WAM for the Cash Collateral Account was 1 day.

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Foreign Currency Risk - The Pool has equity investments, cash, and foreign currency spot contracts that are exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of equity investments, cash, and foreign currency spot contracts as of June 30, 2021 are as follows:

Currency	Equity Investments	Cash	Foreign Currency Spot Contracts	Total
Australian Dollar	\$ 104,378	\$ 30	\$ -	\$ 104,408
Brazil Real	70,455	233	-	70,688
British Pound	268,235	179	-	268,414
Canadian Dollar	140,558	120	-	140,678
Chilean Peso	4,312	-	-	4,312
Chinese Yuan	65,675	2,068	-	67,743
Danish Krone	17,419	5	-	17,424
Emirati Dirham	5,243	-	-	5,243
Euro Currency Unit	467,252	172	-	467,424
Hong Kong Dollar	405,762	1,167	-	406,929
Hungarian Forint	15,976	166	-	16,142
Indian Rupee	115,465	5,632	-	121,097
Indonesian Rupiah	33,103	1	1	33,105
Israeli Shekel	542	(1)	-	541
Japanese Yen	383,698	1,535	-	385,233
Malaysian Ringgit	10,160	1	-	10,161
Mexican Peso	54,171	11	-	54,182
New Taiwan Dollar	177,597	32	-	177,629
New Zealand Dollar	384	35	-	419
Norwegian Krone	34,169	14	-	34,183
Philippine Peso	5,102	4	-	5,106
Polish Zloty	3,913	15	-	3,928
Qatari Riyal	159	11	-	170
Singapore Dollar	25,575	160	-	25,735
South African Rand	18,783	7	-	18,790
South Korean Won	258,055	-	(5)	258,050
Swedish Krona	100,537	33	-	100,570
Swiss Franc	101,305	52	-	101,357
Thailand Baht	42,631	9	-	42,640
Turkish Lira	4,720	108	-	4,828
Total	2,935,334	11,799	(4)	2,947,129
U.S. Dollar	877,326	-	-	877,326
Total	\$ 3,812,660	\$ 11,799	\$ (4)	\$ 3,824,455

Short-Term Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in the Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the Pool must have at least 10 percent of its assets in United States Treasury issues. Repurchase agreements are collateralized by United States Treasury Bonds. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. All of the Pool's investments had the highest credit ratings as of June 30, 2021.

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Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2021, the Pool held no investments that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent and the collateral is held in the name of the IMB. All remaining investments are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk – The Pool is exposed to interest rate risk from its fixed income investments and money market mutual fund investments. The IMB monitors interest rate risk of the Pool by limiting the weighted average maturity (WAM) of the investments of the Pool to 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the different asset types in the Pool as of June 30, 2021:

Investment Type	Carrying Value	WAM (days)
Commercial Paper	\$ 26,920	55
Money market mutual funds	39,753	1
Repurchase agreement	47,669	1
U.S. Treasury bills	102,887	44
Total investments	\$ 217,229	28

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

Total Return Fixed Income

Credit Risk - The Pool is exposed to credit risk from its fixed income investments, money market mutual fund investment, and Cash Collateral Account investment. The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by a nationally recognized statistical rating organization. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. The Pool holds some securities that have not received a rating from the aforementioned rating organizations. These securities have been listed as not rated in the table below. The absence or lack of a rating does not necessarily indicate a greater degree of risk. The money market mutual fund has the highest credit rating. The Cash Collateral Account is not rated. The following table provides credit ratings for the Pool's fixed income investments as of June 30, 2021:

Rating	Fair Value
AAA	\$ 15,315
AA	1,231,457
A	98,223
BBB	580,929
BB	388,622
B	360,429
CCC	24,868
CC	4,947
D	3,992
Withdrawn	701
Not rated	82,383
Total fixed income investments	\$ 2,791,866

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

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Custodial Credit Risk - At June 30, 2021, except for posted collateral on cleared derivatives and over-the-counter derivative instruments, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent for U.S. Dollar denominated loans and 105 percent for foreign denominated loans, and the collateral is held by the IMB's custodian in the name of the IMB. Investments in commingled debt funds, money market mutual funds, and the Cash Collateral Account are not subject to custodial credit risk. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk - The Pool is exposed to interest rate risk from its fixed income investments, money market mutual fund investment, and Cash Collateral Account investment. As of June 30, 2021, the money market mutual fund has a weighted average maturity (WAM) of 41 days. Except for repurchase agreements that can have up to 95 days to maturity, investments in the Cash Collateral Account are limited to overnight investments. As of June 30, 2021, the WAM for the Cash Collateral Account was 1 day.

The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The following table provides the weighted average effective duration for the various asset types in the Pool as of June 30, 2021:

Investment Type	Fair Value	Effective Duration (years)
Commingled debt funds	\$ 415,969	2.7
Corporate asset backed issues	88,145	0.9
Corporate CMO	68,170	1.3
Corporate CMO interest-only	6	0.0*
Foreign asset backed issues	45,895	0.5
Foreign corporate bonds	294,249	5.5
Foreign government bonds	331,607	6.7
Municipal bonds	28,917	8.8
U.S. corporate bonds	406,148	8.4
U.S. Government agency bonds	170	0.3
U.S. Government agency CMO	62,411	1.3
U.S. Government agency CMO interest-only	5,866	3.5
U.S. Government agency MBS	379,822	4.1
U. S. Government agency TBAs	62,580	4.3
U.S. Treasury bonds	601,911	11.9
Total fixed income investments	\$ 2,791,866	

*Rounds to less than .05

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2021, the Pool held \$712,895 of these securities. This represents approximately 26 percent of the value of the Pool's fixed income securities.

Foreign Currency Risk - The Pool has foreign fixed income investments, foreign equity investments, and cash that is denominated in foreign currencies and exposed to foreign currency risk. Additionally, the Pool has indirect

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exposure to foreign currency risk through its ownership interests in certain of the commingled debt funds. Approximately \$82,977, or 20 percent, of the commingled debt funds hold substantially all of their investments in securities denominated in foreign currencies. This represents approximately 3 percent of the value of the Pool's fixed income securities.

The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2021, are as follows:

Currency	Foreign Fixed Income	Common Stock	Cash	Total
Argentine Peso	\$ 3,547	\$ -	\$ 1,420	\$ 4,967
Australian Dollar	-	-	2,751	2,751
Belarusian Ruble	1,638	-	-	1,638
Brazil Real	22,293	-	698	22,991
British Pound	-	739	3,065	3,804
Canadian Dollar	-	-	1,105	1,105
Colombian Peso	4,703	-	-	4,703
Deutsche Mark	230	-	-	230
Dominican Peso	4,018	-	-	4,018
Egyptian Pound	3,039	-	-	3,039
Euro Currency Unit	8,685	-	6,776	15,461
Georgia Lari	2,275	-	-	2,275
Ghana Cedi	2,327	-	-	2,327
Indonesian Rupiah	21,388	-	-	21,388
Japanese Yen	5,292	-	4,620	9,912
Kazakhstani Tenge	3,311	-	9	3,320
Kenyan Shilling	3,347	-	-	3,347
Mexican Peso	63,982	-	593	64,575
New Zealand Dollar	-	-	823	823
Peruvian Nuevo Sol	146	-	-	146
Russian Ruble	75,397	-	-	75,397
South African Rand	13,536	-	-	13,536
Swedish Krona	-	-	515	515
Turkish Lira	3,106	-	-	3,106
Uruguayan Peso	6,875	-	-	6,875
Uzbekistan Som	995	-	-	995
Total foreign denominated investments	250,130	739	22,375	273,244
U.S. Dollar	421,621	-	(3,013)	418,608
Total	\$ 671,751	\$ 739	\$ 19,362	\$ 691,852

Core Fixed Income

Credit Risk - The Pool is exposed to credit risk from its fixed income investments, money market mutual fund investment, and Cash Collateral Account investment. The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by a nationally recognized statistical rating organization. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. The Pool holds some securities that have not received a rating from the aforementioned rating organizations. These securities have been listed as not rated in the table below. The absence or lack of a rating does not necessarily indicate a greater degree of risk. The money market mutual fund has the highest credit rating. The Cash Collateral Account is not rated. The following table provides credit ratings for the Pool's fixed income investments as of June 30, 2021:

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Rating	Fair Value
AAA	\$ 39,264
AA	616,520
A	111,180
BBB	328,988
BB	21,582
B	869
CCC	172
D	57
Withdrawn	13,036
Not rated	106,192
Total fixed income investments	\$ 1,237,860

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2021, the Pool held no securities that were subject to custodial credit risk. Securities on loan are collateralized to a minimum of 102 percent, and the collateral is held by the IMB's custodian in the name of the IMB. The money market mutual fund and the Cash Collateral Account are not subject to custodial credit risk. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk - The Pool is exposed to interest rate risk from its fixed income investments, money market mutual fund investment, and Cash Collateral Account investment. As of June 30, 2021, the money market mutual fund has a weighted average maturity (WAM) of 41 days. Except for repurchase agreements that can have up to 95 days to maturity, investments in the Cash Collateral Account are limited to overnight investments. As of June 30, 2021, the WAM for the Cash Collateral Account was 1 day.

The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation considers the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The following table provides the weighted average effective duration for the Pool's fixed income investments as of June 30, 2021:

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 122,533	2.5
Corporate CMO	96,489	2.4
Corporate CMO interest-only	197	(1.7)
Corporate CMO principal-only	47	3.0
Foreign asset backed issues	3,508	1.1
Foreign corporate bonds	116,081	6.2
Foreign government bonds	6,606	11.8
Municipal bonds	12,058	13.8
U.S. corporate bonds	295,067	8.4
U.S. Government agency CMO	108,672	3.8
U.S. Government agency CMO interest-only	3,402	6.2
U.S. Government agency CMO principal-only	3,225	5.5
U.S. Government agency MBS	175,912	4.4

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U.S. Government agency TBAs	32,366	4.2
U.S. Treasury bonds	261,215	8.7
U.S. Treasury inflation protected securities	482	0.5
Total fixed income investments	<u>\$ 1,237,860</u>	

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2021, the Pool held \$546,351 of these securities. This represents approximately 44 percent of the value of the Pool's fixed income securities.

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

TIPS

The Pool invests in a commingled bond fund that holds primarily U.S. Treasury inflation protected securities. This investment is exposed to credit and interest rate risk. The commingled bond fund is not rated by a nationally recognized statistical rating organization. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. As of June 30, 2021, the commingled bond fund had an effective duration of 7.51 years. The Pool is not exposed to concentration of credit risk, custodial credit risk, or foreign currency risk.

Hedge Fund

The Pool holds shares in hedge funds and shares of a money market mutual fund. As of June 30, 2021, the money market mutual fund has the highest credit rating and has a weighted average maturity of 41 days. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. The Pool is restricted from investing more than 10 percent of the value of the Pool with any single manager. At June 30, 2021, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Board of Treasury (BTI) Investments

The West Virginia Offices of the Insurance Commissioner is a participant in the BTI WV Money Market Pool. At June 30, 2021, the Operating Fund has \$562 and SEWC Fund has \$11,220 in this pool. The following footnote information pertains to the pool as a whole.

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

The BTI is authorized by West Virginia Code Chapter 12, Article 6C, Section 9, to invest in United States government and agency obligations, commercial paper, corporate bonds, repurchase agreements, asset-backed securities, and investments in accordance with the Linked Deposit Program, which is a program using financial institutions in the State to reduce loan costs to small businesses by offsetting interest reductions on the loans with certificates of

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deposit, loans approved by the Legislature, and any other programs authorized by the Legislature. In addition to the restrictions in investment types, at no time shall more than 75 percent of the Consolidated Fund be invested in any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association and at no time shall more than 5 percent be invested in securities issued by a single private corporation or association. Further, no less than 15 percent of the Consolidated Fund shall be invested in any direct obligation of or obligation guaranteed by the United States government. Senate Bill 297, passed during the 2021 Regular Legislative Session, has modified these restrictions, eliminating the 75 percent investment restriction and the minimum 15 percent investment in direct obligations and obligations guaranteed by the United States government. The provisions of Senate Bill 297 became effective on July 8, 2021.

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

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

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

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

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody’s	S&P		
U.S. Treasury notes*	Aaa	AA+	\$ 37,505	0.55%
U.S. Treasury bills*	P-1	A-1+	354,997	5.19
Commercial paper	P-1	A-1+	1,302,573	19.04
	P-1	A-1	2,634,701	38.50
Negotiable certificates of deposit	P-1	A-1+	138,500	2.02
	P-1	A-1	812,504	11.88
Money market funds	Aaa	AAAm	1,600	0.02
	NR	AAAm	217,022	3.17
Repurchase Agreements (underlying securities):				
U.S. Treasury bonds and notes*	Aaa	AA+	1,325,680	19.37

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Security Type	Credit Rating		Carrying Value	Percent of Poll Assets
	Moody's	S&P		
U.S. Agency bonds and notes	Aaa	AA+	17,920	0.26
			<u>\$ 6,843,002</u>	<u>100.00%</u>

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

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

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury notes	\$ 37,505	1
U.S. Treasury bills	354,997	13
Commercial paper	3,937,274	73
Negotiable certificates of deposit	951,004	65
Repurchase agreements	1,343,600	6
Money market funds	218,622	1
	<u>\$ 6,843,002</u>	<u>52</u>

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury bills	\$ 102,496	54
U.S. agency bonds and notes	47,124	50
U.S. agency discount notes	52,697	41
Repurchase agreements	21,000	1
Money market funds	149	1
	<u>\$ 223,466</u>	<u>45</u>

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

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

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

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

4. Leases

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

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

Future minimum scheduled rentals under operating leases at June 30, 2021, were as follows:

2022	\$	1,377
2023		1,302
2024		1,273
2025		1,281
2026		1,276
Thereafter		<u>1,296</u>
Total minimum lease payments	\$	<u>7,805</u>

Rental expense was \$1,210 for the year ended June 30, 2021.

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 considering such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. West Virginia Offices of the Insurance Commissioner's management has elected to use discounting for the Workers' Compensation Funds. The estimated liabilities for unpaid claims and claim adjustment expenses (claims liability) for the Old Fund have been discounted using a rate of 3.0 percent at June 30, 2021. The 3.0 percent discount rate assumption was a reduction of .5 percent from the prior year's assumed rate of 3.5 percent. The change in discount rate applied resulted in an increase to the Old Fund's liabilities of an estimated \$36,970. The claims liabilities of the Coal Worker's Pneumoconiosis Fund, the Uninsured Employers' Fund and the Self-Insured Employers' Funds have been discounted at 3.0 percent at June 30, 2021, as in prior years. Based on the composition and characteristics of the SEWC Fund, the claim liabilities for this proprietary fund are presented on an undiscounted basis.

The impact of discounting on the stated value of the liabilities is significant. At June 30, 2021, the total undiscounted claim liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$1.613 billion, and the total discounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$1.256 billion, which yields a discount amount of \$357 for fiscal year 2021. If the West Virginia Offices of the Insurance Commissioner did not elect to use discounting in their presentation of the liabilities in their financial statements, the net position of the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds would be a deficit balance of \$163.

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The following schedule represents the reconciliation of the unpaid claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds, at June 30, 2021, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the year then ended. Losses include claim adjustment expenses. Discounting has been applied at 3.0 percent for the Old Fund, the CWPf, UEF, and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>1,336,200</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	94
Changes in provision for insured events of prior fiscal years	17,010
Amortization of discount	<u>38,069</u>
Total claims and claim adjustment expenses	<u>55,173</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(135,473)</u>
Total payments	<u>(135,473)</u>
Unpaid claims and claim adjustment expenses at end of the year	\$ <u>1,255,900</u>

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2021, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the year then ended. Liabilities are presented on an undiscounted basis.

Unpaid claims and claim adjustment expenses at beginning of year	\$ 13,300
Commuted Liabilities	<u>(1,051)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>12,249</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	10,250
Changes in provision for insured events of prior fiscal years	<u>(1,920)</u>
Subtotal claims and claim adjustment expenses	8,330
Commuted liabilities expense	<u>1,051</u>
Total claims and claim adjustment expenses	<u>9,381</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,079)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,109)</u>
Subtotal incremental claim payments	(8,188)
Commuted Loss Reserve Fund Value	<u>(1,142)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(9,330)</u>
Unpaid claims and claim adjustment expenses at end of the year	\$ <u>12,300</u>

6. Deficit Funding Plan

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

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

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

Senate Bill 1004 also established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2(d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement. On March 10, 2007, Senate Bill 185 ceased the tobacco settlement payments to the debt reduction fund and replaced those revenues with \$50.4 million dollars in annual personal income tax proceeds. The personal income tax proceeds dedicated in §4-11A-18 were in addition to the income tax proceeds already dedicated to the debt reduction fund. Other Old Fund revenue sources included: Code §29-22A-10,10b: an estimated \$11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield approximately \$100 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3(f)(3): monthly premium surcharges to be collected for all West Virginia employers expected to yield approximately \$43 million annually. The net proceeds from collection of these monies were to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid.

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

On April 8, 2017, Senate Bill 362 was passed which authorized redirection by Executive Order of seventy-five percent of the amounts collected from employer surcharges and assessments on worker's compensation insurance policies for periods prior to June 30, 2018 and authorized redirection of seventy-five percent of the amounts collected from certain deposits of revenues derived from net terminal income for periods prior to June 30, 2018. The Governor may, by Executive Order, redirect seventy-five percent of the deposits of the amount collected from premium surcharges, self-insured assessments and net terminal income deposits for any period commencing after June 30, 2017 and ending before July 1, 2018 (fiscal year 2018) to the General Revenue Fund. Subsequent to fiscal year 2018, the employer surcharges and lottery revenues, estimated to yield approximately \$44 million annually, will remain statutorily dedicated to the Old Fund until the deficit is eliminated. On August 7, 2017, the Governor issued Executive order 6-17, thereby redirecting seventy-five percent of Old Fund fiscal year 2018 deficit reduction revenues to the State's General Revenue Fund.

On March 9, 2018, House Bill 4628 was passed which authorized redirection of seventy-five percent of the amounts collected for employer surcharges and assessments on worker's compensation insurance policies for any period commencing after June 30, 2018 and ending before January 1, 2019 to be deposited in the General Revenue Fund. After December 30, 2018, no employer surcharges or assessments on worker's compensation insurance policies may be assessed. Beginning on and after January 1, 2019, employer surcharges and assessments on worker's

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compensation insurance policies are terminated, provided that liability surcharges already assessed for periods prior to January 1, 2019 will continue to be paid.

On March 4, 2020, the Legislature passed Senate Bill 545, which permits the Insurance Commissioner to transfer cash from the OIC's Operating Fund to the Old Fund during fiscal years 2020 and 2021, provided that a deficit balance existed in the Old Fund during the prior fiscal year. Due to concerns regarding the potential fiscal impact of the COVID-19 virus on the OIC's Operating Fund and the State's General Revenue Fund, no transfers were made during fiscal year 2020. During fiscal year 2021, the Insurance Commissioner transferred \$20,000 from the OIC's Operating Fund to the Old Fund to assist with the deficit balance.

7. Pension Plan

Plan Description - The West Virginia Offices of the Insurance Commissioner contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS also provides delayed retirement, early retirement, death and disability benefits. CPRB issues a publicly available financial report that includes financial statements and required supplemental information for PERS. That report can be obtained by writing to CPRB, 4101 MacCorkle Avenue, SE, Charleston, West Virginia 25304-1636 or by calling (304) 558-3570.

Benefits provided – Benefits are provided through PERS using a two-tiered system. Effective July 1, 2015, PERS implemented the second tier, Tier II. Employees hired, for the first time, on or after July 1, 2015 are considered Tier II members. Tier I and Tier II members are subject to different regulations.

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

Tier II: Employees who retire at or after age 62 with ten or more years of credited service are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary multiplied by years of service. Final average salary is the average of the highest annual compensation received by an employee during any period of five consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer. Terminated members with at least ten years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 64.

Contributions - While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. The funding policy required employer contributions of 10%, 10%, and 10% for the years ended June 30, 2021, 2020, and 2019, respectively. The employee contribution rate is 4.5% and 6.0% for Tier I and Tier II employees, respectively. The West Virginia Offices of the Insurance Commissioner's contribution to the Plan, excluding the employee's contribution paid by the West Virginia Offices of the Insurance Commissioner, approximated \$1,090, \$1,134, and \$1,120 for the fiscal years ended June 30, 2021, 2020, and 2019, respectively.

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

At June 30, 2021 and 2020, the West Virginia Offices of the Insurance Commissioner reported a liability of \$3,835 and \$1,631, respectively, for its proportionate share of the net pension liability. The June 30, 2021 net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to the measurement date of June 30, 2020. The June 30, 2020 net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to the measurement date of June 30, 2019. The West Virginia Offices of the Insurance Commissioner's proportion of the net pension liability was based on a projection of the West Virginia Offices of the Insurance Commissioner's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the West Virginia Offices of the Insurance Commissioner's proportionate share was 0.73%, which was a decrease of .03% from its proportionate share measured as of June 30, 2019. At June 30, 2019, the West Virginia Offices of the Insurance Commissioner's proportionate share was 0.76% which was a decrease of 0.04% from its proportionate share measured as of June 30, 2018.

For the year ended June 30, 2021 and 2020, the West Virginia Offices of the Insurance Commissioner recognized pension expense of \$753 and \$481, respectively. At June 30, 2021 and 2020, the West Virginia Offices of the Insurance Commissioner reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,216	\$ -
Differences between expected and actual experience	564	79
Change in assumptions	-	169
Changes in proportion and differences between the West Virginia Offices of the Insurance Commissioner's contributions and proportionate share of contributions	-	222
The West Virginia Offices of the Insurance Commissioner's contributions subsequent to the measurement date	<u>1,090</u>	<u>-</u>
Total	<u>\$ 2,870</u>	<u>\$ 470</u>

The West Virginia Offices of the Insurance Commissioner reported \$1,090 and \$1,134 as deferred outflows of resources related to pensions resulting from West Virginia Offices of the Insurance Commissioner contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2021 and 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	
2022	\$ (335)
2023	493
2024	701
2025	451
2026	-
	<u>\$ 1,310</u>

Actuarial assumptions and methods - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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Inflation	3.0%
Salary increases	3.1 – 6.5%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on 100% of Pub-2010 General Employees table, below-median, headcount weighted, projected generationally with scale MP-2018 for active members; 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected generationally with scale MP-2018; 122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected generationally with scale MP-2018; 118% of Pub-2010 General/Teachers Disabled Male table, headcount weighted, projected generationally with scale MP-2018; 117% of Pub-2010 General/Teachers Disabled Female table, headcount weighted, projected generationally with scale MP-2018.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2018.

Long-term expected rates of return - The long-term rates of return on pension plan investments were determined using the building block method in which estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of long-term geometric rates of return are summarized in the following table and were used for all defined benefit plans for the year ending June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	15.0%	2.2%
Domestic Equity	27.5%	5.5%
International Equity	27.5%	7.0%
Real Estate	10.0%	6.6%
Private Equity	10.0%	8.5%
Hedge Funds	10.0%	4.0%
Total	<u>100.0%</u>	

Discount rate - The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position of each defined benefits pension plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability of each plan.

Sensitivity of the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability to changes in the discount rate – Regarding the sensitivity of the net pension liability to changes in the discount rate, the following table presents the plans' net pension liabilities calculated using the current discount rate of 7.5% as well as the plans' net pension liabilities if they were calculated using a discount rate that is one percentage lower or one percentage point higher as of June 30, 2020 (in thousands):

	<u>Total Net Pension Asset (Liability)</u>		
	<u>1% Decrease 6.5%</u>	<u>Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
PERS	<u>\$(9,769)</u>	<u>\$(3,835)</u>	<u>\$1,184</u>

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Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report available at the Consolidated Public Retirement Board's website at www.wvretirement.com.

8. Other Postemployment Benefits

As related to the implementation of GASB 75, following are the West Virginia Offices of the Insurance Commissioner's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, revenues, and the OPEB expense and expenditures for the fiscal years ended June 30, 2021:

	<u>2021</u>
Net OPEB liability	\$ 988
Deferred outflows of resources	520
Deferred inflows of resources	(3,638)
Revenues	94
OPEB expense	(1,084)
Contributions made by the West Virginia Offices of the Insurance Commissioner	398

Plan Description - The West Virginia Other Postemployment Benefit (OPEB) Plan (the Plan) is a cost-sharing, multiple employer, defined benefit other postemployment benefit plan and 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 Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State established July 1, 2006 as an irrevocable trust. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with the approval of the Finance Board. The plan provides medical and prescription drug insurance, as well as life insurance, benefits to certain retirees of State agencies, colleges and universities, county boards of education, and other government entities who receive pension benefits under the PERS, STRS, TDCRS, TIAA-CREF, Plan G, Troopers Plan A, or Troopers Plan B pension systems, as administered by the West Virginia Consolidated Public Retirement Board (CPRB). The plan is closed to new entrants.

Plan fiduciary net position - The Plan's fiduciary net position has been determined on the same basis used by the Plan. The RHBT is accounted for as a fiduciary fund, and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP for fiduciary funds as prescribed or permitted by the GASB. The primary sources of revenue are plan members and employer contributions. Members' contributions are recognized in the period in which the contributions are due. Employer contributions and related receivables to the trust are recognized pursuant to a formal commitment from the employer or statutory or contractual requirement, when there is a reasonable expectation of collection. Benefits and refunds are recognized when due and payable.

RHBT is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. RHBT issues publicly available financial statements and required supplementary information for the OPEB plan. Details regarding this plan and a copy of the RHBT financial report may be obtained by contacting PEIA at 601 57th Street SE, Suite 2, Charleston, West Virginia 25304-2345, or by calling (888) 680-7342.

Benefits provided - The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life insurance

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The medical and prescription drug insurance is provided through two options:

- Self-Insured Preferred Provider Benefit Plan – primarily for non-Medicare-eligible retirees and spouses
- External Managed Care Organizations – primarily for Medicare-eligible retirees and spouses

Contributions - Employer contributions from the RHBT billing system represent what the employer was billed during the respective year for its portion of the pay-as-you-go (paygo) premiums, retiree leave conversion billings, and other matters, including billing adjustments.

Paygo premiums are established by the PEIA Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The paygo rates related to the measurement date of June 30, were:

	2020	2019
Paygo premium	\$ 168	\$ 183

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired after July 1, 1997 or hired before June 30, 2010 pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010 pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or annual leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988 to June 30, 2001 may convert accrued sick or annual leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

The West Virginia Offices of the Insurance Commissioner's contributions to the OPEB plan for the years ended June 30, 2021, 2020, and 2019 were \$398, \$432, and \$502, respectively.

Actuarial Assumptions and Methods - The total OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2020, which is the measurement date. The following actuarial assumptions were used and applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method: Entry age normal cost method.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method: Level percentage of payroll over a 20-year closed period.
- Remaining amortization period: 20 years closed as of June 30, 2017.
- Investment rate of return: 6.65%, net of OPEB plan investment expense, including inflation.
- Healthcare cost trend rates: Trend rate for pre-Medicare per capita costs of 7% for the plan year end 2022, 6.50% for plan year end 2023, decreasing by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year 2032. Trend rate for Medicare per capita costs of 31.11% for plan year 2022, 9.15% for plan year end 2023, 8.4% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036.
- Projected salary increases: Dependent upon pension system ranging from 2.75% - 5.18%, including inflation.
- Inflation rate: 2.25%.
- Mortality rates based on Below-Median Income General Mortality Tables projected with MP-2019.

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

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2015 to June 30, 2020. These assumptions will remain in effect for valuation purposes until such time as the RHBT adopts revised assumptions.

The projections of the net OPEB liability are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of the net OPEB liability does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation and any estimate of future postemployment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, changes in the investment rate of return, and other matters increase the level of uncertainty in such estimates. As such, the estimate of postemployment program costs contains considerable uncertainty and variability, and actual experience may vary significantly from the current estimated net OPEB liability.

Long-term expected rates of return - The long-term expected rate of return of 6.65% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.00% for long-term assets invested with the WV Investment Management Board and an expected short-term rate of return of 2.50% for assets invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term geometric rates of return for each major asset class included in RHBT’s target asset allocation as of June 30, 2020, are summarized below.

Asset Class	Long-term Expected Real Return
Global equity	6.8%
Core plus fixed income	4.1%
Core real estate	6.1%
Hedge fund	4.4%
Private equity	8.8%

Discount rate - The discount rate used to measure the total OPEB liability was 6.65%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will continue to follow the current funding policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions and that the OPEB plan is expected to be fully funded by the fiscal year ended June 30, 2025, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the West Virginia Offices of the Insurance Commissioner’s proportionate share of the net OPEB liability as of June 30, 2021 calculated using the discount rate of 6.65%, as well as what the West Virginia Offices of the Insurance Commissioner’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.65%) or one percentage point higher (7.65%) than the current discount rate.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

	1% Decrease (5.65%)	Current Discount Rate (6.65%)	1% Increase (7.65%)
Net OPEB liability	\$ (1,409)	\$ (988)	\$ (636)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate - The following presents the West Virginia Offices of the Insurance Commissioner's proportionate share of the net OPEB liability as of June 30, 2021 calculated using the healthcare cost trend rate, as well as what the West Virginia Offices of the Insurance Commissioner's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	\$ (594)	\$ (988)	\$ (1,463)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The June 30, 2021 net OPEB liability was measured as of June 30, 2020, and the total OPEB liability was determined by an actuarial valuation as of June 30, 2020, which is the measurement date.

At June 30, 2021, the West Virginia Offices of the Insurance Commissioner's proportionate share of the net OPEB liability was \$1,206. Of this amount, the West Virginia Offices of the Insurance Commissioner recognized \$988 as its proportionate share on the statement of net position. The remainder of \$218 denotes the West Virginia Offices of the Insurance Commissioner's proportionate share of net OPEB liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on its proportionate share of employer and non-employer contributions to OPEB for each of the fiscal years ended June 30, 2020 and 2019. Employer contributions are recognized when due. At the June 30, 2020 measurement date, the West Virginia Offices of the Insurance Commissioner's proportion was .2237%, an increase of .02% from its proportion of .2437% calculated as of June 30, 2019.

For the year ended June 30, 2021, the West Virginia Offices of the Insurance Commissioner recognized OPEB expense of (\$1,084). Of this amount, (\$1,178) was recognized as the West Virginia Offices of the Insurance Commissioner's proportionate share of OPEB expense and \$94 as the amount of OPEB expense attributable to special funding from a non-employer contributing entity. The West Virginia Offices of the Insurance Commissioner also recognized revenue of \$94 for support provided by the State.

At June 30, 2021, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows.

<u>June 30, 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 641
Changes in assumptions	-	2,230
Changes in proportion and difference between employer contributions and proportionate share of contributions	14	669
Net difference between projected and actual investment earnings	108	33
Reallocation of opt-out employer change in proportionate share	-	65
Contributions after the measurement date	<u>398</u>	<u>-</u>
Total	<u>\$ 520</u>	<u>\$ 3,638</u>

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

The West Virginia Offices of the Insurance Commissioner will recognize the \$398 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amortization</u>
2022	\$ (1,341)
2023	(1,066)
2024	(551)
2025	(558)
2026	-
	<u>\$ (3,516)</u>

Payables to the OPEB Plan - The West Virginia Offices of the Insurance Commissioner's did not report any amounts payable for normal contributions to the OPEB plan as of June 30, 2021.

9. Commitments and Contingencies

Contingent Liability for Self-Insured Employers

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

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

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

Risk Management

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

The West Virginia Offices of the Insurance Commissioner has obtained health coverage for its employees through its participation in PEIA. In exchange for the payment of premiums to PEIA, the West Virginia Offices of the Insurance Commissioner has transferred its risk related to health coverage for employees. Additionally, the West Virginia Offices of the Insurance Commissioner obtained coverage for job-related injuries through participation in the SEWC. The SEWC is a public entity risk pool formulated to facilitate the purchase of workers' compensation insurance for all state agencies. Effective October 1, 2011, workers' compensation insurance for the SEWC was purchased from Zurich. See Note 10 for additional information about the SEWC.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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

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

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

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

Premium Advance Deposits

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

10. State Entities Workers' Compensation Program Fund

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

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

In fiscal year 2012, pursuant to the provisions of HB 3163, the enabling legislation for the SEWC, the West Virginia Offices of the Insurance Commissioner's Operating Fund transferred \$21,655 to the SEWC. The transfer was made in order to provide the initial funding for the program. The amount transferred may be repaid over time. In September 2015, the first repayment of the loan was made and \$5,000 was transferred back to the Operating Fund. In July 2016, the second repayment of the loan was made and \$5,000 was transferred back to the Operating Fund. In March 2017, the third repayment of the loan was made and \$4,000 was transferred back to the Operating Fund. In May 2021, the fourth repayment of the loan was made and \$1,000 was transferred back to the Operating Fund.

From July 1, 2011 through September 30, 2011, the SEWC purchased workers' compensation insurance from BrickStreet Mutual Insurance Company (now Encova) on a guaranteed cost basis. On October 1, 2011, the SEWC entered into a high deductible insurance coverage policy with Zurich. Pursuant to the policy provisions in the insurance arrangement, the SEWC has transferred the risk for losses in excess of a two hundred fifty-thousand-

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

dollar deductible to Zurich and the SEWC retains the loss exposure up to the two hundred fifty thousand dollar per occurrence deductible limit. The SEWC has provided for these losses by establishing a Loss Reserve Fund with Zurich. Zurich will pay statutory benefits for all losses incurred by the SEWC up to the deductible limit from the Loss Reserve Fund. Zurich will provide claims management services for claims incurred prior to June 30, 2017.

Beginning eighteen months after the policy effective date and at a minimum annually thereafter, adjustments to the Loss Reserve Fund will be calculated in accordance with a formula as set forth in the policy. During fiscal year 2021, the SEWC Loss Reserve Fund received credits of \$877 from Zurich and paid \$206 to Encova in accordance with the adjustment formula. The fourth and final valuation and adjustment to the Loss Reserve Fund for each policy period with Zurich finalized on December 30, 2020. Accordingly, the liabilities and Loss Reserve Fund amounts associated with the finalized policy period were commuted to Zurich. At December 31, 2020, the OIC commuted \$1,142 from the Loss Reserve Fund to Zurich.

Premiums received from pool participants were \$16,640 while premiums paid for insurance coverage were \$7,710, during the year ended June 30, 2021, resulting in net premiums of \$8,930. The Loss Reserve Fund balance at June 30, 2021 was \$11,532.

Beginning July 1, 2017, the SEWC entered into a high deductible insurance coverage policy with BrickStreet Mutual Insurance Company (now Encova Insurance Company (EIC)). Pursuant to the policy provisions in the insurance arrangement, the SEWC has transferred the risk for losses in excess of a two hundred fifty-thousand-dollar deductible to EIC and the SEWC retains the loss exposure up to the two hundred fifty thousand dollar per occurrence deductible limit. The SEWC has provided for these losses by establishing a Loss Reserve Fund with EIC. Encova will pay statutory benefits for all losses incurred by the SEWC up to the deductible limit from the Loss Reserve Fund. EIC will also provide claims management services for claims incurred on or after July 1, 2017.

Required Supplemental Information - Unaudited

Supplemental Revenue and Reserve Development Information (Unaudited)

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

The rows of the table are defined as follows:

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

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

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

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

	Fiscal and Policy Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Revenues	\$ 54.5	\$ 54.9	\$ 45.2	\$ 46.0	\$ 106.0	\$ 35.8	\$ 35.9	\$ 18.2	\$ 1.8	\$ 2.6
Statutory Allocations	199.0	203.6	215.9	231.3	122.2	8.2	3.9	(0.8)	(2.3)	20.0
Investment Income (Loss)	39.5	65.4	125.0	14.9	19.9	135.0	76.9	67.5	53.4	228.7
Total Income (1)	293.0	323.9	386.1	292.2	248.1	179.0	116.7	84.9	52.9	251.3
Other expenses (2)	18.4	15.3	12.2	11.2	11.0	10.3	9.6	8.4	7.7	6.9
Original Incurred Loss (3)	0.8	0.8	0.7	0.3	1.3	0.5	0.2	0	0	0
Cumulative Payments (4):										
Year 1	0.1	0.1	0.1	0.0	0.4	0.0	0.1	0	0	0
Year 2	0.2	0.3	0.2	0.6	0.9	0.5	0.2	0	0	
Year 3	0.3	0.7	0.5	1.3	1.2	0.6	0.3	0.1		
Year 4	0.3	0.8	1.0	1.6	1.4	0.6	0.4			
Year 5	0.6	0.9	1.2	1.8	1.5	0.6				
Year 6	0.8	1.1	1.5	1.9	1.6					
Year 7	0.9	1.2	1.5	2.1						
Year 8	0.9	1.3	1.6							
Year 9	1.0	1.3								
Year 10	1.0									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	0.8	0.8	0.7	0.3	1.3	0.5	0.2	0	0.1	0.1
Year 2	0.3	1.0	0.4	2.1	1.4	0.7	0.4	0	0.2	
Year 3	0.5	1.0	2.2	2.1	1.5	0.7	0.4	0.1		
Year 4	0.4	1.5	2.6	2.4	1.6	0.7	0.4			
Year 5	1.4	1.5	2.5	2.5	1.8	0.7				
Year 6	1.6	1.9	2.4	2.6	1.8					
Year 7	1.6	1.9	2.2	2.3						
Year 8	2.0	2.1	1.9							
Year 9	1.5	1.9								
Year 10	1.5									
(Decrease) Increase in Estimated Incurred Claims and Expense from end of Policy Year (6)	0.7	1.1	1.2	2.0	0.5	0.2	0.2	0.1	0.2	0.1

West Virginia Offices of the Insurance Commissioner
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information
Workers' Compensation Fund
(Unaudited)
(In Thousands)

The table below presents WC Old Fund changes in claims liabilities discounted at 3 percent. The CWPF, Uninsured Employers Fund and the Self-Insured Funds are discounted at 3 percent. Losses include claim adjustment expenses.

	Fiscal and Policy Year Ended June 30, 2021				
	WC Old Fund	CWPF	UEF	Self-Insured Funds	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,079,600	\$ 209,400	\$ 600	\$ 46,600	\$ 1,336,200
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	89	5	94
Changes in provision for insured events of prior fiscal years	35,408	(12,147)	(148)	(6,103)	17,010
Amortization of discount	30,685	6,028	17	1,339	38,069
Total claims and claim adjustment expenses	<u>66,093</u>	<u>(6,119)</u>	<u>(42)</u>	<u>(4,759)</u>	<u>55,173</u>
Payments					
Claims and claim adjustment expenses attributable to insured events of current fiscal year	-	-	-	-	-
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(114,393)	(17,081)	(58)	(3,941)	(135,473)
Total payments	<u>(114,393)</u>	<u>(17,081)</u>	<u>(58)</u>	<u>(3,941)</u>	<u>(135,473)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,031,300</u>	<u>\$ 186,200</u>	<u>\$ 500</u>	<u>\$ 37,900</u>	<u>\$ 1,255,900</u>

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

	Fiscal and Policy Years Ended June 30			
	2018	2019	2020	2021
Premium Revenue Earned	\$ 19,685	\$ 16,622	\$ 14,320	\$ 16,640
Premiums Paid to Insurance Companies	<u>(8,014)</u>	<u>(7,318)</u>	<u>(6,846)</u>	<u>(7,710)</u>
Total Income/Net Premiums (1)	11,671	9,304	7,474	8,930
Other Expenses (2)	1,201	791	433	498
Original Incurred Loss (3)	11,918	11,901	10,888	10,250
Cumulative Payments (4)				
Year 1	3,283	3,723	3,287	3,079
Year 2	6,719	8,071	7,427	
Year 3	8,083	9,057		
Year 4	8,089			
Re-estimated Incurred Claims and Expenses (5)				
Year 1	11,990	11,901	10,888	10,250
Year 2	9,596	11,597	10,246	
Year 3	9,219	10,739		
Year 4	8,799			
(Decrease) Increase in Estimated Incurred Claims and Expense from End of Policy Year (6)	(3,119)	(1,162)	(642)	-

West Virginia Offices of the Insurance Commissioner
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information -
State Entities Workers' Compensation Program
(Unaudited)
(In Thousands)

The table below presents State Entities Workers' Compensation changes in claims liabilities, including claim adjustment expenses.

	Fiscal and Policy Year Ended June 30, 2021
Unpaid claims and claim adjustment expenses at beginning of year	\$ 13,300
Commuted Liabilities	<u>(1,051)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>12,249</u>
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	10,250
Changes in provision for insured events of prior fiscal years	<u>(1,920)</u>
Subtotal claims and claim adjustment expenses	8,330
Commuted liabilities expense	<u>1,051</u>
Total claims and claim adjustment expenses	<u>9,381</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,079)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,109)</u>
Subtotal incremental claim payments	(8,188)
Commuted Loss Reserve Fund Value	<u>(1,142)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(9,330)</u>
 Total unpaid claims and claim adjustment expenses at end of year	 <u><u>\$ 12,300</u></u>

West Virginia Offices of the Insurance Commissioner
Required Supplemental Information - Budgetary Comparison Schedule - Operating Fund
(Unaudited)
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues:				
2021 Revenue	\$ 40,865	\$ 40,865	\$ 37,816	\$ (3,049)
Total Revenue Available for Appropriation	40,865	40,865	37,816	(3,049)
Expenditures:				
Personal Services	17,629	17,712	11,402	6,310
Employee Benefits	7,861	7,861	3,591	4,270
Contractual and Professional	5,630	5,547	3,152	2,395
Other	10,597	10,597	4,511	6,086
Total Expenditures Charged to Appropriation	41,717	41,717	22,656	19,061
Excess of Revenue Over Expenditures	(852)	(852)	15,160	16,012
Interfund Transfer	-	-	(19,000)	(19,000)
Budgetary Fund Balance, Beginning of Year	84,862	64,711	23,917	(40,794)
Budgetary Fund Balance, End of Year	\$ 84,010	\$ 63,859	\$ 20,077	\$ (43,782)

Note to Budgetary Comparison Schedule:

Budgetary Reporting and GAAP

Because the budgetary basis differs from accounting principles generally accepted in the United States, budget and actual amounts in the accompanying Budgetary Comparison Schedule are presented on the budgetary basis. A more detailed budgetary basis report is produced for internal purposes to demonstrate budgetary compliance and is available at the West Virginia Offices of the Insurance Commissioner. A reconciliation that compares the total revenues and total expenditures on a budgetary basis for the year ended June 30, 2021, to comparable amounts presented in conformity with accounting principles generally accepted in the United States is set forth in the schedule on page 52.

West Virginia Offices of the Insurance Commissioner
Required Supplemental Information Budgetary Comparison Schedule - Budget-to-
GAAP Reconciliation - Operating Fund
(Unaudited)
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	<u>Operating Funds</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison schedule	\$ 37,816
Differences-Budget to GAAP:	
Reversal of prior year accruals	(3,813)
Accruals booked for current year	<u>3,105</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental fund	<u>\$ 37,108</u>
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 22,656
Differences-Budget to GAAP:	
Reversal of prior year accruals	(1,747)
Accruals booked for current year	<u>2,620</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance governmental fund	<u>\$ 23,529</u>

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

	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)(percentage)	0.7253%	0.7586%	0.8030%	0.8573%	0.8749%	0.9164%	0.9440%	0.9775%
Employer's proportionate share of the net pension liability (asset)	\$ 3,835	\$ 1,631	\$ 2,074	\$ 3,700	\$ 8,042	\$ 5,118	\$ 3,484	\$ 9,756
Employer's covered payroll*	\$ 11,296	\$ 11,091	\$ 11,100	\$ 11,781	\$ 12,110	\$ 12,429	\$ 12,641	\$ 13,086
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	33.95%	14.71%	18.68%	31.41%	66.41%	41.18%	27.56%	74.55%
Plan fiduciary net position as a percentage of the total pension liability **	92.89%	96.99%	96.33%	93.67%	86.11%	91.29%	93.98%	79.70%

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

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,090	\$ 1,134	\$ 1,120	\$ 1,230	\$ 1,420	\$ 1,636	\$ 1,740	\$ 1,833	\$ 1,832
Contributions in relation to the contractually required contribution	(1,090)	(1,134)	(1,120)	(1,230)	(1,420)	(1,636)	(1,740)	(1,833)	(1,832)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 11,011	\$ 11,296	\$ 11,091	\$ 11,100	\$ 11,781	\$ 12,110	\$ 12,429	\$ 12,641	\$ 13,086
Contributions as a percentage of covered payroll	10.00%	10.00%	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

West Virginia Offices of the Insurance Commissioner
Note to the Required Supplementary Pension Information
Public Employee Retirement System (PERS)
Changes in Assumptions

Amounts reported reflect changes in assumptions to more closely reflect actual experience. Significant changes in assumptions are related to projected salary increases, inflation rate, and mortality tables.

	Projected Salary Increases			Mortality Rates	Withdrawal Rates		
	State	Nonstate	Inflation rate		State	Nonstate	Disability Rates
2020	3.1% - 5.3%	3.35% - 6.5%	3.00%	Active-Pub-2010 General Employee Tables, below-median, headcount weighted, projected generationally with scale MP-2018 Health Male Retirees-108% of Pub-2010 General Retiree Male Table, below-median, headcount weighted, projected generationally with scale MP-2018 Health Female Retirees-122% of Pub-2010 General Retiree Female Table, below-median, headcount weighted, projected generationally with Scale MP-2018 Disabled Males-118% of Pub-2010, General/Teachers Disabled Male Table, headcount weighted, projected generationally with Scale MP-2018 Disabled Females-117% of Pub -2010 General/Teachers Disabled Female Table, headcount weighted, projected generationally with Scale MP-2018.	2.28-45.63%	2.50-35.88%	0.005-0.540%
2019	3.1% - 5.3%	3.35% - 6.5%	3.00%	Active-100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018 Retired Healthy Males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018 Retired Healthy Females-122% of Pub-2010 - Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018 Disabled Males-118% of Pub-2010, General/Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018 Disabled Females-118% of Pub -2010 General/Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018.	2.28-45.63%	2.50-35.88%	0.005-.540%
2018	3.00% - 4.6%	3.35% - 6.0%	3.00%	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101% of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational	1.75-35.10%	2-35.88%	0.007-.675%
2017	3.00% - 4.6%	3.35% - 6.0%	3.00%	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101% of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational	1.75-35.10%	2-35.88%	0.007-.675%
2016	3.00% - 4.6%	3.35% - 6.0%	3.00%	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101 % of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational	1.75-35.10%	2-35.88%	0.007-.675%
2015	3.00% - 4.6%	3.35% - 6.0%	1.90%	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA; Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA; Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA; Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	1.75-35.1%	2-35.8%	0-.675%
2014	4.25% - 6.0%	4.25% - 6.0%	2.20%	Healthy males - 1983 GAM; Healthy females-1971; disabled males - 1971 GAM; Disabled females - Revenue ruling 96-7	1-26%	2-31.2%	0-.8%

There were no other factors that affected trends in the amounts reported. Additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2020.

West Virginia Offices of the Insurance Commissioner
Schedule of Proportionate Share of the Net OPEB Liability
June 30, 2021
(In Thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of the net OPEB liability (asset) (percentage)	0.2237%	0.2437%	0.2577%	0.2561%
Employer's proportionate share of the net OPEB liability (asset)	\$ 988	\$ 4,043	\$ 5,530	\$ 6,297
State's proportionate share of the net OPEB liability (asset)	<u>218</u>	<u>827</u>	<u>1,143</u>	<u>1,294</u>
Total proportionate share of the net OPEB liability (asset)	<u>\$ 1,206</u>	<u>\$ 4,870</u>	<u>\$ 6,673</u>	<u>\$ 7,591</u>
Employer's covered-employee payroll	\$ 10,224	\$ 10,417	\$ 10,456	\$ 11,027
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	9.66%	38.81%	52.89%	57.11%
Plan fiduciary net position as a percentage of the total OPEB liability	73.49%	39.69%	30.98%	25.10%

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

**West Virginia Offices of the Insurance Commissioner
Schedule of OPEB Contributions
Last Four Fiscal Years
(In Thousands)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 398	\$ 432	\$ 502	\$ 528
Contributions in relation to the statutorily required contribution	<u>(398)</u>	<u>(432)</u>	<u>(502)</u>	<u>(528)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 9,934	\$ 10,224	\$ 10,417	\$ 10,456
Contributions as a percentage of covered-employee payroll	4.01%	4.23%	4.82%	5.05%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, West Virginia Offices of the Insurance Commissioner should present information for those years for which information is available.

**West Virginia Offices of the Insurance Commissioner
Note to the Required Supplementary Pension Information
Other Post Employment Benefit Plan
Changes in Assumptions**

Actuarial Changes Other Postemployment Benefits Plan

The actuarial assumptions used in the total OPEB liability calculation can change from year to year. Please see table below which summarizes the actuarial assumptions used for the respective measurement dates.

	<u>Inflation rate</u>	<u>Salary Increases</u>	<u>Investment Rate of Return</u>	<u>Mortality</u>	<u>Discount Rate</u>	<u>Healthcare Cost Trend Rates</u>
<u>2020</u>	2.25%	Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation.	6.65%, net of OPEB plan investment expense, including inflation	Post-Retirement: Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females.	6.65%	Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2022, 6.50% for plan year 2023, decreasing by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2032. Trend rate for Medicare per capita costs of 31.11% for plan year end 2022, 9.15% for plan year 2023, 8.40% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036.
<u>2019</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis	7.15%	Trend rate for pre-Medicare per capital costs of 8.5% for plan year end 2020, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year 2028. Trend rate for Medicare per capita costs of 3.1% for plan year end 2020. 9.5% for plan year 2021, decreasing by 0.5% each year thereafter, until ultimate trend rate 4.5% is reached in plan year 2031.
<u>2018</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis	7.15%	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.0% and 10.0% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend rate of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
<u>2017</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis	7.15%	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.5% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend rate of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.

Other Supplementary Information

West Virginia Offices of the Insurance Commissioner
Schedule of Net Position (Deficit) - Workers' Compensation Information
June 30, 2021 (In Thousands)

	<u>WC Old Fund Debt Reduction</u>	<u>Coal Workers' Pneumoconiosis</u>	<u>Uninsured Fund</u>	<u>Self-Insured Funds</u>	<u>Total</u>
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 1,091,786	\$ 247,917	\$ 16,928	\$ 96,158	\$ 1,452,789
Receivables, Net:					
Statutory Allocations	15	-	-	-	15
Assessments	-	-	28	-	28
Premiums	177	-	-	-	177
Total Current Assets	<u>1,091,978</u>	<u>247,917</u>	<u>16,956</u>	<u>96,158</u>	<u>1,453,009</u>
Total Assets	<u>1,091,978</u>	<u>247,917</u>	<u>16,956</u>	<u>96,158</u>	<u>1,453,009</u>
LIABILITIES					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	110,300	18,500	100	6,100	135,000
Accrued Expenses and Other Liabilities	3,068	136	-	19	3,223
Total Current Liabilities	<u>113,368</u>	<u>18,636</u>	<u>100</u>	<u>6,119</u>	<u>138,223</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	921,000	167,700	400	31,800	1,120,900
Total Noncurrent Liabilities	<u>921,000</u>	<u>167,700</u>	<u>400</u>	<u>31,800</u>	<u>1,120,900</u>
Total Liabilities	<u>1,034,368</u>	<u>186,336</u>	<u>500</u>	<u>37,919</u>	<u>1,259,123</u>
Net position:					
Restricted for:					
WC Old Fund	57,610	-	-	-	57,610
Coal Workers' Pneumoconiosis	-	61,581	-	-	61,581
Uninsured Fund	-	-	16,456	-	16,456
Self-Insured Fund	-	-	-	58,239	58,239
Total Net Position (Deficit)	<u>\$ 57,610</u>	<u>\$ 61,581</u>	<u>\$ 16,456</u>	<u>\$ 58,239</u>	<u>\$ 193,886</u>

West Virginia Offices of the Insurance Commissioner
Schedule of Revenues, Expenses, and Change in Fund Net Position (Deficit) - Workers' Compensation
Information
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Operating Revenues					
Assessments	\$ -	\$ -	\$ 313	\$ -	\$ 313
Employer Surcharge	2,072	-	-	-	2,072
Premium Revenue, Net	219	-	-	-	219
Other Operating Revenue	33	-	-	-	33
Total Operating Revenue	2,324	-	313	-	2,637
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	66,093	(6,119)	(42)	(4,759)	55,173
General and Administration	5,765	852	4	255	6,876
Total Operating Expenses and Claims Provision	71,858	(5,267)	(38)	(4,504)	62,049
Operating (Loss) Income	(69,534)	5,267	351	4,504	(59,412)
Nonoperating Revenues					
Investment Earnings	170,908	40,031	2,557	15,213	228,709
Severance Tax, Net	1	-	-	-	1
Total Nonoperating Revenues	170,909	40,031	2,557	15,213	228,710
Change in Net Position (Deficit) Before Interfund Transfers	101,375	45,298	2,908	19,717	169,298
Interfund Transfers	20,000	-	-	-	20,000
Change in Net Position (Deficit)	121,375	45,298	2,908	19,717	189,298
Total Net Position (Deficit) - Beginning of Year	(63,765)	16,283	13,548	38,522	4,588
Total Net Position (Deficit) - End of Year	\$ 57,610	\$ 61,581	\$ 16,456	\$ 58,239	\$ 193,886

West Virginia Offices of the Insurance Commissioner
Schedule of Cash Flows - Workers' Compensation Information
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Cash Flows from Operating Activities					
Receipts from Fees and Assessments	\$ 2,073	\$ -	\$ 10	\$ -	\$ 2,083
Receipts from Employers	155	-	313	-	468
Receipts from Other Operating Revenue	33	-	-	-	33
Payments to Claimants and Providers	(114,393)	(17,081)	(58)	(3,941)	(135,473)
Payments to Employees	(2)	-	-	-	(2)
Refunds for Debt Surcharge Overpayments	(9)	-	-	-	(9)
Payments to Suppliers	(11,965)	(787)	(5)	(266)	(13,023)
Net Cash (Used in) Provided by Operating Activities	(124,108)	(17,868)	260	(4,207)	(145,923)
Cash Flows from Noncapital Financing Activities					
Transfers to General Revenue	20,000	-	-	-	20,000
Net Cash (Used in) Provided by Noncapital Financing Activities	20,000	-	-	-	20,000
Cash Flows from Investing Activities					
Investment Earnings	170,908	40,031	2,557	15,213	228,709
Net Cash Provided by (Used in) Investing Activities	170,908	40,031	2,557	15,213	228,709
Net Increase (Decrease) in Cash and Cash Equivalents	66,800	22,163	2,817	11,006	102,786
Transfers to General Revenue					-
Cash and Cash Equivalents - Beginning of Year	1,024,986	225,754	14,111	85,152	1,350,003
Cash and Cash Equivalents - End of Year	<u>\$ 1,091,786</u>	<u>\$ 247,917</u>	<u>\$ 16,928</u>	<u>\$ 96,158</u>	<u>\$ 1,452,789</u>
Reconciliation of Operating (Loss) Income to Net Cash provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (69,534)	\$ 5,267	\$ 351	\$ 4,504	\$ (59,412)
Adjustments to Reconcile Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	(72)	-	9	-	(63)
Estimated Liability for Claims and Claim Adjustment Expenses	(48,300)	(23,200)	(100)	(8,700)	(80,300)
Accrued Expenses and Other Liabilities	(6,202)	65	-	(11)	(6,148)
Net Cash (Used in) Provided by Operating Activities	\$ (124,108)	\$ (17,868)	\$ 260	\$ (4,207)	\$ (145,923)

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

West Virginia Offices of the Insurance Commissioner
Charleston, West Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of the West Virginia Offices of the Insurance Commissioner as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the West Virginia Offices of the Insurance Commissioner’s basic financial statements, and have issued our report thereon dated October 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the West Virginia Offices of the Insurance Commissioner’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the West Virginia Offices of the Insurance Commissioner’s internal control. Accordingly, we do not express an opinion on the effectiveness of the West Virginia Offices of the Insurance Commissioner’s internal control.

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Scittle & Stalaker, PLLC".

**Charleston, West Virginia
October 14, 2021**