
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, 2020



A Professional Limited Liability Company



Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position.....	8
Statement of Activities	9
Fund Financial Statements	
Statement of Net Position - Governmental Fund.....	10
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund.....	11
Statement of Net Position - Proprietary Funds.....	12
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund.....	13
Statement of Cash Flows - Proprietary Funds	14
Notes to Financial Statements	15
Required Supplemental Information - Unaudited	
Supplemental Revenue and Reserve Development Information	48
Supplemental Revenue and Reserve Development Information – Workers’ Compensation Fund, Coal Workers’ Pneumoconiosis Fund, Self Insured Funds, Uninsured Fund.....	49
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information – Workers’ Compensation Fund	50
Supplemental Revenue and Reserve Development Information - State Entities Workers’ Compensation Program	51
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information - State Entities Workers’ Compensation Program	52
Required Supplementary Information - Budgetary Comparison Schedule - Operating Fund.....	53
Required Supplementary Information - Budgetary Comparison Schedule - Budget-to-GAAP Reconciliation - Operating Fund.....	54
Schedule of the West Virginia Offices of the Insurance Commissioner’s Proportionate Share of the Net Pension Liability.....	55
Schedule of the West Virginia Offices of the Insurance Commissioner Pension Contributions	56

West Virginia Offices of the Insurance Commissioner

Note to the Required Supplementary Pension Information.....	57
Schedule of the West Virginia Offices of the Insurance Commissioner's Proportionate Share of the Net OPEB Liability	58
Schedule of the West Virginia Offices of the Insurance Commissioner OPEB Contributions	59
Note to the Required Supplementary OPEB Information.....	60
Other Supplementary Information	
Schedule of Net Position (Deficit) - Workers' Compensation Information.....	61
Schedule of Revenues, Expenses and Change in Fund Net Position (Deficit) - Workers' Compensation Information	62
Schedule of Cash Flows - Workers' Compensation Information	63
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 <i>Government Auditing Standards</i>	64

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, 2020, 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, 2020, 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.

The Virginia Center
1411 Virginia Street, East | Suite 100
Charleston, WV 25301

MAIN (304) 343-4126
FAX (304) 343-8008

Towne Square | 201 Third Street
PO Box 149
Parkersburg, WV 26102

MAIN (304) 485-6584
FAX (304) 485-0971

Wharf District
68 Clay Street | Suite C
Morgantown, WV 26501

MAIN (304) 554-3371
FAX (304) 554-3410

suttlecpas.com
cpa@suttlecpas.com

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, 2020, 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 48 through 52, and 55 through 60, and budgetary comparison information on pages 53 through 54 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 61 through 63 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 12, 2020, 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 12, 2020**

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, 2020 and June 30, 2019. 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, 2020 (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, 2020 and 2019.

Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current Assets	\$ 27,741	\$ 28,426	\$ 1,378,192	\$ 1,477,867	\$ 1,405,933	\$ 1,506,293
Capital Assets, Net	174	154	-	-	174	154
Other Long Term Receivable	158	171	-	-	158	171
Deferred Outflows of Resources	1,676	1,756	-	-	1,676	1,756
Total Assets and Deferred Outflows of Resources	<u>29,749</u>	<u>30,507</u>	<u>1,378,192</u>	<u>1,477,867</u>	<u>1,407,941</u>	<u>1,508,374</u>
Current Liabilities	1,758	1,638	153,071	178,959	154,829	180,597
Long-Term Liabilities	6,246	8,050	1,205,800	1,270,300	1,212,046	1,278,350
Deferred Inflows of Resources	3,446	2,960	-	-	3,446	2,960
Total Liabilities and Deferred Inflows of Resources	<u>11,450</u>	<u>12,648</u>	<u>1,358,871</u>	<u>1,449,259</u>	<u>1,370,321</u>	<u>1,461,907</u>
Net Position						
Invested in Capital Assets						
Net of Related Debt	174	154	-	-	174	154
Restricted	-	-	83,086	79,035	83,086	79,035
Unrestricted (Deficit)	18,125	17,705	(63,765)	(50,427)	(45,640)	(32,722)
Total Net Position	<u>\$ 18,299</u>	<u>\$ 17,859</u>	<u>\$ 19,321</u>	<u>\$ 28,608</u>	<u>\$ 37,620</u>	<u>\$ 46,467</u>

West Virginia Offices of the Insurance Commissioner
Statement of Activities and Changes in Net Position
For the Fiscal Year Ended June 30, 2020 (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Charges for Services	\$ 35,917	\$ 37,929	\$ 9,301	\$ 27,526	\$ 45,218	\$ 65,455
Total Operating Revenues	35,917	37,929	9,301	27,526	45,218	65,455
Expenses						
Program Expenses						
Workers' Compensation	-	-	59,151	139,992	59,151	139,992
State Entities Workers' Compensation Program Fund	-	-	10,697	8,871	10,697	8,871
General Government	20,731	21,098	-	-	20,731	21,098
Total Operating Expenses	20,731	21,098	69,848	148,863	90,579	169,961
Operating Income (loss)	15,186	16,831	(60,547)	(121,337)	(45,361)	(104,506)
Nonoperating Revenues						
Investment Earnings	9	13	53,515	67,865	53,524	67,878
Severance Tax	-	-	(2,255)	-	(2,255)	-
Total Nonoperating Revenues	9	13	51,260	67,865	51,269	67,878
Change in Net Position Before Reappropriations/Interfund Transfers	15,195	16,844	(9,287)	(53,472)	5,908	(36,628)
Reappropriation to State of West Virginia General Revenue	(15,000)	(15,000)	-	(11,867)	(15,000)	(26,867)
Payments on Behalf of the WVOIC	245	349	-	-	245	349
Change in Net Position	440	2,193	(9,287)	(65,339)	(8,847)	(63,146)
Net Position, Beginning of Year	17,859	15,666	28,608	93,947	46,467	109,613
Net Position, End of Year	\$ 18,299	\$ 17,859	\$ 19,321	\$ 28,608	\$ 37,620	\$ 46,467

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 declined during fiscal year 2020, with an overall decrease in net position of \$8,847. At June 30, 2020 the West Virginia Offices of the Insurance Commissioner's total net position was \$37,620.

The West Virginia Offices of the Insurance Commissioner's total assets and deferred outflows of resources decreased by \$100,433 during the year. Factors contributing to the decrease in assets and deferred outflows of resources were the reduced revenues received for Old Fund deficit reduction and the transfers of cash from the OIC's Operating Fund to the State's General Revenue Fund during fiscal year 2020. The agency's total liabilities and deferred inflows of resources decreased by \$91,586 in fiscal year 2020. The decrease in liabilities and deferred inflows of resources was due to the anticipated reduction in outstanding Old Fund claims liabilities due to proper claims management and the closed status of the fund.

At June 30, 2020, the Workers' Compensation Old Fund's deficit was \$63,765, an increase of \$13,338 from the prior fiscal year. Consistent with expectations, the Workers' Compensation Old Fund's claims liabilities decreased by \$77,500 during fiscal year 2020. The decrease in the Old Fund's liabilities is inclusive of the impact of a reduction in the discount factor used from 4.5 percent in FY2019 to 3.5 percent for FY2020. The change in discount rate resulted in an increase to the Old Fund liability estimate of \$79,486. The Old Fund's invested assets generated \$41,895 in investment income, which is a 4.1 percent investment return for the year and is consistent with the anticipated rate of return for the year. The FY2020 increase in the Old Fund deficit is attributable to the removal of all Old Fund revenue sources prior to the Old Fund ever achieving the point of solvency and is also attributable to the reduction in the discount rate assumption. As the asset base of the Workers' Compensation Old Fund is depleted to pay claims obligations as they come due, the investable assets of the Old Fund will continue to decline, and the related investment income generated from those assets will also continue to decline even if the anticipated rate of return is attained.

The West Virginia Offices of the Insurance Commissioner experienced an increase of \$52,591 in the fair market value of its investments held during fiscal year 2020. This change in fair market value, when combined with the yearly investment earnings of \$933 yield a net investment income of \$53,524 for fiscal year 2020.

During fiscal year 2020, The West Virginia Offices of the Insurance Commissioner disbursed \$15,000 from the OIC's Operating Fund to the Public Employees Insurance Agency Financial Stability Fund. See Note 2 for additional information.

The Coal Worker's Pneumoconiosis Fund experienced an increase in net position of \$3,450 during fiscal year 2020. The increase was primarily attributable to the positive claims development that decreased the estimated liabilities by \$16,400. The decreased liability estimate for the CWP Fund may be 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 March 4, 2020, the Legislature passed Senate Bill 545, which permits the OIC to transfer cash from its Operating Fund to the Old Fund during fiscal years 2020 and 2021. The OIC did not make any transfers pursuant to Senate Bill 545 during fiscal year 2020 due to concerns over the potential financial impact to the OIC and to the State due to the COVID-19 pandemic. However, the OIC was able to successfully maintain operations during the global pandemic and did not experience a significant decline in operating revenues during FY2020.

Financial Statements

West Virginia Offices of the Insurance Commissioner
Statement of Net Position
June 30, 2020 (In Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 23,919	\$ 1,364,366	\$ 1,388,285
Receivables, Net:			
Statutory Allocations	-	6	6
Assessments	240	37	277
Employer Surcharge	3,571	-	3,571
Premiums	-	113	113
Other	11	49	60
Prepaid Assets	-	1,087	1,087
Loss Reserve Fund	-	12,534	12,534
Total Current Assets	<u>27,741</u>	<u>1,378,192</u>	<u>1,405,933</u>
Noncurrent Assets			
Other Receivables	158	-	158
Capital Assets, Net	174	-	174
Total Noncurrent Assets	<u>332</u>	<u>-</u>	<u>332</u>
Total Assets	<u>28,073</u>	<u>1,378,192</u>	<u>1,406,265</u>
Deferred Outflows of Resources			
Deferred outflows related to pension	1,197	-	1,197
Deferred outflows related to other post-employment benefit	479	-	479
Total Deferred Outflows of Resources	<u>1,676</u>	<u>-</u>	<u>1,676</u>
Total Assets and Deferred Outflows of Resources	<u>29,749</u>	<u>1,378,192</u>	<u>1,407,941</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	143,700	143,700
Compensated Absences	544	-	544
Accrued Expenses and Other Liabilities	1,214	9,371	10,585
Total Current Liabilities	<u>1,758</u>	<u>153,071</u>	<u>154,829</u>
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,205,800	1,205,800
Net Pension Liability	1,631	-	1,631
Compensated Absences	572	-	572
OPEB Liability	4,043	-	4,043
Total Noncurrent Liabilities	<u>6,246</u>	<u>1,205,800</u>	<u>1,212,046</u>
Total Liabilities	<u>8,004</u>	<u>1,358,871</u>	<u>1,366,875</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	1,329	-	1,329
Deferred inflows related to other post-employment benefit	2,117	-	2,117
Total Deferred Inflows of Resources	<u>3,446</u>	<u>-</u>	<u>3,446</u>
Total Liabilities and Deferred Inflows of Resources	<u>11,450</u>	<u>1,358,871</u>	<u>1,370,321</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	174	-	174
Restricted for:			
Coal Workers' Pneumoconiosis	-	16,283	16,283
Uninsured Fund	-	13,548	13,548
Self-Insured Funds	-	38,522	38,522
State Entities Workers' Compensation			
Program Fund	-	14,733	14,733
Unrestricted (Deficit)	<u>18,125</u>	<u>(63,765)</u>	<u>(45,640)</u>
Total Net Position	<u>\$ 18,299</u>	<u>\$ 19,321</u>	<u>\$ 37,620</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Activities
For the Fiscal Year Ended June 30, 2020 (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	\$ 20,717	\$ 35,917	\$ 15,200	\$ -	\$ 15,200
Depreciation, Unallocated	14	-	(14)	-	(14)
Total Governmental Activities	<u>20,731</u>	<u>35,917</u>	<u>15,186</u>	<u>-</u>	<u>15,186</u>
Business-type Activities					
Workers' Compensation	59,151	1,827	-	(57,324)	(57,324)
State Entities Workers' Compensation Program Fund	10,697	7,474	-	(3,223)	(3,223)
Total Business-Type Activities	<u>69,848</u>	<u>9,301</u>	<u>-</u>	<u>(60,547)</u>	<u>(60,547)</u>
Total Primary Government	<u>\$ 90,579</u>	<u>\$ 45,218</u>	<u>15,186</u>	<u>(60,547)</u>	<u>(45,361)</u>
General Revenues:					
Investment Earnings			9	53,515	53,524
Severance Tax			-	(2,255)	(2,255)
Total General Revenues			<u>9</u>	<u>51,260</u>	<u>51,269</u>
Change in Net Position Before Reappropriations/Interfund Transfers			15,195	(9,287)	5,908
Reappropriation to State of West Virginia General Revenue			(15,000)	-	(15,000)
Payments on Behalf of the WVOIC			<u>245</u>	<u>-</u>	<u>245</u>
Change in Net Position			440	(9,287)	(8,847)
Net Position, Beginning of year			<u>17,859</u>	<u>28,608</u>	<u>46,467</u>
Net Position, End of Year			<u>\$ 18,299</u>	<u>\$ 19,321</u>	<u>\$ 37,620</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Governmental Fund
June 30, 2020 (In Thousands)

	<u>Operating Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 23,919
Accounts Receivable – Assessments	240
Accounts Receivable – Employer Surcharge	3,571
Accounts Receivable - Other	11
Total Assets	<u>\$ 27,741</u>
LIABILITIES	
Compensated Absences	\$ 544
Accrued Expenses and Other Liabilities	1,214
Total Liabilities	<u>1,758</u>
Fund Balance	
Committed	<u>25,983</u>
Total Fund Balance	<u>25,983</u>
Total Liabilities and Fund Balances	<u>\$ 27,741</u>
Total Fund Balance	\$ 25,983
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	174
Deferred outflows of resources are not financial resources and therefore are not reported in the funds	1,676
Arrears Pay is not a financial resource and therefore is not reported in the funds	158
Net Pension liability is not due and payable in the current period and therefore are not reported in the funds	(1,631)
Long Term Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	(572)
OPEB liability is not due and payable in the current period and therefore are not reported in the funds	(4,043)
Deferred inflows of resources are not financial resources and therefore are not reported in the funds	<u>(3,446)</u>
Net Position of Governmental Activities	<u>\$ 18,299</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, 2020 (In Thousands)

	<u>Operating Fund</u>
REVENUES	
Fees, Assessments, and Other	\$ 35,917
Investment Earnings	<u>9</u>
Total Revenues	35,926
EXPENDITURES	
General and Administrative	<u>21,976</u>
Total Expenditures	<u>21,976</u>
Excess of Revenues over Expenditures	13,950
Reappropriation to the State of West Virginia General Fund	(15,000)
Payments on Behalf of the WVOIC	<u>245</u>
Net Change in Fund Balance	(805)
Fund Balance, Beginning of year	<u>26,788</u>
Fund Balance, End of Year	<u>\$ 25,983</u>
Net Change in Fund Balance	\$ (805)
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	1,134
Contributions to OPEB in the current fiscal year are not included in the Statement of Activities	432
Net Pension Expense does not require the use of current financial resources and therefore is not reported in governmental funds	(481)
OPEB Expense does not require the use of current financial resources and therefore is not reported in governmental funds	392
Change in OPEB contributions are not included in the Statement of Activities	(110)
Change in Employer Contributions are not included in the Statement of Activities	(6)
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	(12)
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	20
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>(125)</u>
Change in Net Position of Governmental Activities	<u>\$ 440</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Proprietary Funds
June 30, 2020 (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	\$ 1,350,003	\$ 14,363	\$ 1,364,366
Receivables, Net:			
Statutory Allocations	6	-	6
Assessments	37	-	37
Premiums	113	-	113
Other	-	49	49
Prepaid Assets	-	1,087	1,087
Loss Reserve Fund	-	12,534	12,534
Total Current Assets	<u>1,350,159</u>	<u>28,033</u>	<u>1,378,192</u>
 Total Assets	 <u>1,350,159</u>	 <u>28,033</u>	 <u>1,378,192</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	138,500	5,200	143,700
Accrued Expenses and			
Other Liabilities	9,371	-	9,371
Total Current Liabilities	<u>147,871</u>	<u>5,200</u>	<u>153,071</u>
Noncurrent Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	1,197,700	8,100	1,205,800
Total Noncurrent Liabilities	<u>1,197,700</u>	<u>8,100</u>	<u>1,205,800</u>
 Total Liabilities	 <u>1,345,571</u>	 <u>13,300</u>	 <u>1,358,871</u>
Net Position			
Restricted for:			
Coal Workers' Pneumoconiosis	16,283	-	16,283
Uninsured Fund	13,548	-	13,548
Self-Insured Funds	38,522	-	38,522
State Entities Workers'			
Compensation Program Fund	-	14,733	14,733
Unrestricted (Deficit)	(63,765)	-	(63,765)
Total Net Position	<u>\$ 4,588</u>	<u>\$ 14,733</u>	<u>\$ 19,321</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, 2020 (In Thousands)

	Workers' Compensation	State Entities Workers' Compensation	Total
Operating Revenues			
Assessments	\$ 356	\$ -	\$ 356
Employer Surcharge	1,220	-	1,220
Premium Revenue, Net	103	7,474	7,577
Other Operating Revenue	148	-	148
Total Operating Revenue	<u>1,827</u>	<u>7,474</u>	<u>9,301</u>
Operating Expenses and Claims Provisions			
Claims and Claim Adjustment Provisions (See Note 5)	52,210	10,264	62,474
General and Administration	6,941	433	7,374
Total Operating Expenses and Claims Provisions	<u>59,151</u>	<u>10,697</u>	<u>69,848</u>
Operating Income (Loss)	<u>(57,324)</u>	<u>(3,223)</u>	<u>(60,547)</u>
Nonoperating Revenues			
Investment Earnings	53,406	109	53,515
Severance Tax, Net	(2,255)	-	(2,255)
Total Nonoperating Revenues	<u>51,151</u>	<u>109</u>	<u>51,260</u>
Change in Net Position	(6,173)	(3,114)	(9,287)
Total Net Position - Beginning of Year	<u>10,761</u>	<u>17,847</u>	<u>28,608</u>
Total Net Position - End of Year	<u>\$ 4,588</u>	<u>\$ 14,733</u>	<u>\$ 19,321</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2020 (In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>State Entities</u> <u>Workers'</u> <u>Compensation</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from Fees and Assessments	\$ 2,044	\$ 14,320	\$ 16,364
Receipts from Employers and Policyholders	347	-	347
Receipts from Other Operating Revenues	148	-	148
Payments to Claimants and Providers	(150,710)	(8,962)	(159,672)
Payments for Premiums	-	(7,306)	(7,306)
Deposits into Loss Reserve Fund	-	(8,576)	(8,576)
Withdrawals from Loss Reserve Fund	-	8,962	8,962
Payments to Employees	(8)	-	(8)
Payments to Suppliers	979	(52)	927
Net Cash (Used in) Provided by Operating Activities	<u>(147,200)</u>	<u>(1,614)</u>	<u>(148,814)</u>
Cash Flows from Noncapital Financing Activities			
Statutory Allocations (Refunds)	<u>(2,258)</u>	<u>-</u>	<u>(2,258)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(2,258)</u>	<u>-</u>	<u>(2,258)</u>
Cash Flows from Investing Activities			
Investment Earnings	<u>53,406</u>	<u>184</u>	<u>53,590</u>
Net Cash Provided by Investing Activities	<u>53,406</u>	<u>184</u>	<u>53,590</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(96,052)	(1,430)	(97,482)
Cash and Cash Equivalents - Beginning of Year	<u>1,446,055</u>	<u>15,793</u>	<u>1,461,848</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,350,003</u>	<u>\$ 14,363</u>	<u>\$ 1,364,366</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Operating (Loss) Income	\$ (57,324)	\$ (3,223)	\$ (60,547)
Adjustments to Reconcile Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Net Change in Assets and Liabilities:			
Receivables, Net	712	-	712
Loss Reserve Fund	-	1,486	1,486
Prepaid Premiums	-	(77)	(77)
Estimated Liability for Claims and Claim Adjustment Expenses	(98,500)	200	(98,300)
Accrued Expenses and Other Liabilities	<u>7,912</u>	<u>-</u>	<u>7,912</u>
Net Cash (Used in) Provided by Operating Activities	<u>\$ (147,200)</u>	<u>\$ (1,614)</u>	<u>\$ (148,814)</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 CWPFF, 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, 2020, 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, 2020, totaled \$40,991. 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 \$1,335,531, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$11,763. 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 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, 2020. 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, 2020, cost of capital assets was \$1,059 with \$14 current depreciation expense and \$885 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, 2020, deferred outflows in the statement of net position were composed of \$1,197 for Public Employees Retirement System (PERS) related to employer contributions made during the fiscal year and differences between expected and actual experience; and \$479 for Other Postemployment Benefits (OPEB) related to employer contributions made during the current fiscal year, and changes in proportion and differences between employer contributions and proportionate share of contributions.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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, 2020 deferred inflows in the statement of net position were composed of \$1,329 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 \$2,117 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.

Re-appropriation to the State's General Revenue Fund

During fiscal year 2020, legislation required a re-appropriation or redirection of \$15,000 from the OIC's Operating Fund to the Public Employees Insurance Agency Stability Fund as follows:

Fund Transferred From	Fund Name Transferred From	Amount Transferred	Transfer Date	Related Legislation
7152	OIC Operating Fund	\$ 3,750	09/23/2019	Code 11B-2-32
7152	OIC Operating Fund	3,750	12/26/2019	Code 11B-2-32
7152	OIC Operating Fund	3,750	03/24/2020	Code 11B-2-32
7152	OIC Operating Fund	3,750	06/23/2020	Code 11B-2-32
		<u>\$ 15,000</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) consist 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 OIC implemented GASB Statement No. 90, *Majority Equity Interests*, which is effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and will improve the relevance of financial statement information for certain component units. This Statement also provides guidance for reporting a component unit if a government acquires a 100% equity interest in that component unit. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. The adoption of GASB Statement No. 90 had no impact on the June 30, 2020 financial statements.

The OIC implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which is effective immediately. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing for one year the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Providing governments with sufficient time to apply the authoritative guidance addressed in this Statement will help to safeguard the reliability of their financial statements, which in turn will benefit the users of those financial statements. The adoption of GASB Statement No. 95 by the OIC extended the implementation date of all statements through GASB Statement No. 94.

Recent Statements Issued by the Governmental Accounting Standards Board

GASB has issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The OIC has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

GASB has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after June 15, 2021. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring 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. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2020. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The OIC has not yet determined the effect that the adoption of GASB Statement No. 89 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 will improve financial reporting by eliminating 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, in fact, 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, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. 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 will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. 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, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. 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, 2023. The requirements of this Statement will improve financial reporting by establishing 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. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring 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.

West Virginia Offices of the Insurance Commissioner Notes to 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 will improve financial reporting by establishing a definition for Subscription-Based Information Technology Arrangements (SBITA) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. 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*, which is effective immediately for certain provisions, and for the other provisions, is effective for reporting periods beginning after June 15, 2021. The requirements of this Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. The requirements also will enhance the relevance, consistency, and comparability of (1) the information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. The portion of GASB Statement No. 97 that was implemented during the current fiscal year had no impact on the June 30, 2020 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 2020, 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 2020.

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 Offices of the Insurance Commissioner
Notes to Financial Statements

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, 2020.

<u>Investment Pool</u>	<u>WC Old Fund</u>	<u>CWPF</u>	<u>Uninsured</u>	<u>Self Insured Guaranty</u>	<u>Self Insured Security</u>
Core Fixed Income	\$ 122,947	\$ 22,466	\$ 1,245	\$ 3,540	\$ 5,238
Domestic Equity	161,541	34,769	2,178	5,337	7,917
Hedge Fund	153,284	43,867	2,770	6,800	10,072
International Equity	124,043	25,935	1,647	4,040	5,981
International Nonqualified	34,504	8,262	503	1,238	1,827
Short-Term Fixed Income	29,276	12,860	1,408	1,486	2,188
TIPS	102,620	22,242	1,371	3,378	5,018
Total Return Fixed Income	284,974	53,316	2,883	8,296	12,264
Total by Pool	<u>\$ 1,013,189</u>	<u>\$ 223,717</u>	<u>\$ 14,005</u>	<u>\$ 34,115</u>	<u>\$ 50,505</u>

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, 2020, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2020, 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, 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, 2020, the money market mutual fund's weighted average maturity (WAM) was 53 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, 2020, the WAM for the Cash Collateral Account was 1 day.

Foreign Currency Risk - The Pool is exposed to no or minimal 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, 2020, was \$163,136. 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.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

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, 2020, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2020, 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, 2020, the money market mutual fund's weighted average maturity (WAM) was 53 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, 2020, the WAM for the Cash Collateral Account was 1 day.

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, 2020 are as follows:

Currency	Equity Investments	Cash	Foreign Currency Spot Contracts	Total
Australian Dollar	\$ 82,579	\$ 373	\$ -	\$ 82,952
Brazil Real	61,732	397	-	62,129
British Pound	189,226	409	-	189,635
Canadian Dollar	93,508	70	-	93,578
Chilean Peso	5,906	-	-	5,906
Chinese Yuan	12,809	3,460	-	16,269
Czech Koruna	40	-	-	40
Danish Krone	10,965	3	-	10,968
Emirati Dirham	8,021	10	-	8,031
Euro Currency Unit	354,338	4,828	-	359,166
Hong Kong Dollar	404,086	2,525	-	406,611
Hungarian Forint	14,000	32	-	14,032
Indian Rupee	104,809	1,694	-	106,503
Indonesian Rupiah	30,263	36	-	30,299
Israeli Shekel	7,399	2	-	7,401
Japanese Yen	365,408	2,270	-	367,678
Malaysian Ringgit	10,968	4	-	10,972
Mexican Peso	39,362	42	-	39,404
New Taiwan Dollar	119,629	404	-	120,033
New Zealand Dollar	289	26	-	315
Norwegian Krone	16,412	196	-	16,608
Philippine Peso	7,480	8	-	7,488
Polish Zloty	1,337	-	-	1,337
Qatari Riyal	125	6	-	131
Singapore Dollar	12,316	211	-	12,527
South African Rand	29,989	56	-	30,045

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

South Korean Won	183,138	1,747	-	184,885
Swedish Krona	79,152	29	-	79,181
Swiss Franc	100,002	46	1	100,049
Thailand Baht	36,076	6	-	36,082
Turkish Lira	11,034	1,711	-	12,745
Total	2,392,398	20,601	1	2,413,000
U.S. Dollar	981,212	-	-	981,212
Total	\$ 3,373,610	\$ 20,601	\$ 1	\$ 3,394,212

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 15 percent of its assets in United States Treasury issues. 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, 2020.

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, 2020, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2020, 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 weighted average maturity (WAM) of the investments of the Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the different asset types in the Pool as of June 30, 2020:

Investment Type	Carrying Value	WAM (days)
Money market mutual fund	\$ 25,896	1
Repurchase agreement	75,658	1
U.S. Government agency bonds	265,950	48
U.S. Treasury bills	274,978	27
Total investments	\$ 642,482	32

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

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

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 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, 2020:

Rating	Fair Value
AAA/A-1	\$ 21,874
AA	738,758
A	164,334
BBB	526,344
BB	294,094
B	171,134
CCC	16,181
CC	3,822
D	4,354
Withdrawn	6,148
Not rated	73,473
Total fixed income investments	<u>\$ 2,020,516</u>

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, 2020, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2020, 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, 2020, the money market mutual fund has a weighted average maturity (WAM) of 53 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, 2020, 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, 2020:

Investment Type	Fair Value	Effective Duration (years)
Commingled debt funds	\$ 206,712	3.1

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Corporate asset backed issues	54,349	1.2
Corporate CMO	59,639	0.9
Corporate CMO interest-only	138	0.5
Foreign asset backed issues	28,152	0.5
Foreign corporate bonds	264,553	5.3
Foreign government bonds	251,488	5.1
Municipal bonds	33,423	9.9
U.S. corporate bonds	495,554	9.4
U.S. Government agency bonds	1,530	0.0*
U.S. Government agency CMO	77,429	1.7
U.S. Government agency CMO interest-only	6,955	6.8
U.S. Government agency MBS	222,696	2.0
U. S. Government agency TBAs	2,599	0.7
U.S. Treasury bonds	209,690	14.4
U.S. Treasury inflation protected securities	105,609	18.8
Total fixed income investments	<u>\$ 2,020,516</u>	

*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, 2020, the Pool held \$451,957 of these securities. This represents approximately 22 percent of the value of the Pool's fixed income securities.

Foreign Currency Risk - The Pool has foreign fixed income, foreign equity investments, and cash that is denominated in foreign currencies and exposed to foreign currency risks. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled debt funds. Approximately \$42,799, or 21 percent, of the commingled debt funds hold substantially all of their investments in securities denominated in foreign currencies. This represents approximately 2 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, 2020, are as follows:

Currency	Foreign Fixed Income	FX Spot	Cash	Total
Argentine Peso	\$ 5,597	\$ -	\$ 1,770	\$ 7,367
Australian Dollar	-	-	2,350	2,350
Belarusian Ruble	1,819	-	-	1,819
Brazil Real	30,899	-	52	30,951
British Pound	15,154	-	2,690	17,844
Canadian Dollar	-	-	(858)	(858)
Colombian Peso	4,620	-	-	4,620
Deutsche Mark	640	-	-	640
Dominican Peso	2,923	-	-	2,923
Egyptian Pound	2,647	-	3	2,650
Euro Currency Unit	5,948	-	3,823	9,771
Ghana Cedi	2,357	-	-	2,357
Indonesian Rupiah	2,713	-	-	2,713

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Japanese Yen	49,050	-	6,419	55,469
Kazakhstani Tenge	681	-	-	681
Kenyan Shilling	3,001	-	-	3,001
Mexican Peso	21,785	6	(2,107)	19,684
New Zealand Dollar	-	-	758	758
Peruvian Nuevo Sol	1,812	-	-	1,812
Russian Ruble	31,249	-	856	32,105
South African Rand	5,707	-	1	5,708
Swedish Krona	-	-	477	477
Turkish Lira	-	-	1	1
Uruguayan Peso	5,050	-	-	5,050
Total foreign denominated investments	193,652	6	16,235	209,893
U.S. Dollar	350,541	-	34,398	384,939
Total	\$ 544,193	\$ 6	\$ 50,633	\$ 594,832

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 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, 2020:

Rating	Fair Value
AAA	\$ 47,882
AA	535,867
A	83,021
BBB	171,799
BB	5,281
B	768
CCC	241
D	94
Withdrawn	11,132
Not rated	63,019
Total fixed income investments	\$ 919,104

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, 2020, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2020, 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, 2020, the money market mutual fund has a weighted average maturity (WAM) of 53 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, 2020, the WAM for the Cash Collateral Account was 1 day.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

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, 2020:

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 104,830	1.6
Corporate CMO	46,117	3.4
Corporate CMO interest-only	212	(13.6)
Corporate CMO principal-only	64	4.6
Foreign asset backed issues	2,168	2.8
Foreign corporate bonds	61,479	6.5
Foreign government bonds	5,870	9.3
Municipal bonds	12,331	14.5
U.S. corporate bonds	189,911	9.3
U.S. Government agency bonds	3,100	0.5
U.S. Government agency CMO	98,050	4.4
U.S. Government agency CMO interest-only	2,144	8.8
U.S. Government agency CMO principal-only	4,409	5.2
U.S. Government agency MBS	180,583	4.6
U.S. Government TBAs	5,924	3.1
U.S. Treasury bonds	201,453	7.8
U.S. Treasury inflation protected securities	459	0.9
Total fixed income investments	\$ 919,104	

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, 2020, the Pool held \$444,501 of these securities. This represents approximately 48 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 and a money market mutual fund. These investments are exposed to credit and interest rate risk. The commingled bond fund is not rated by a nationally recognized statistical rating organization and the money market mutual fund has the highest credit rating. 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, 2020, the commingled bond fund had an effective duration of 7.68 years. Interest rate risk of the money market mutual fund is measured by weighted average maturity (WAM). As of June 30, 2020, the fund's WAM was 53 days. The Pool is not exposed to concentration of credit risk, custodial credit risk, or foreign currency risk.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

Hedge Fund

The Pool holds shares in hedge funds and shares of a money market mutual fund. As of June 30, 2020, the money market mutual fund has the highest credit rating and has a weighted average maturity of 53 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, 2020, 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, 2020, the Operating Fund has \$561 and SEWC Fund has \$11,202 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 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.

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 Investors and UBS Global Asset Management.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

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 bills*	P-1	A-1+	\$ 1,017,343	19.76
Commercial paper	P-1	A-1+	861,472	16.73
	P-1	A-1	1,834,384	35.62
Negotiable certificates of deposit	P-1	A-1+	302,738	5.88
	P-1	A-1	469,111	9.11
Money market funds	Aaa	AAAm	1,581	.03
	NR	AAAm	217,022	4.21
Repurchase Agreements (underlying securities):				
U.S. Treasury bonds and notes *	Aaa	AA+	445,700	8.66
			<u>\$ 5,149,351</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 bills	\$ 1,017,343	37
Commercial paper	2,695,856	52
Negotiable certificates of deposit	771,849	58
Repurchase agreements	445,700	1
Money market funds	218,603	1
	<u>\$ 5,149,351</u>	<u>44</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:

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury notes	\$ 27,041	80
U.S. Treasury bills	30,986	79
U.S. agency bonds and notes	33,850	10
U.S. agency discount notes	125,304	65
Repurchase agreements	47,200	1
Money market funds	177	1
	\$ 264,558	50

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.

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, 2020, were as follows:

2021	\$ 1,602
2022	1,587
2023	1,569
2024	1,536
2025	1,520
Thereafter	1,521
Total minimum lease payments	\$ 9,335

Rental expense was \$1,330 for the year ended June 30, 2020.

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

5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses

GASB standards state “the practice of presenting claims liabilities at the discounted present value of estimated future cash payments (discounting) is neither mandated nor prohibited.” GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool’s expected settlement rate for those liabilities and its expected investment yield rate. West Virginia Offices of the Insurance Commissioner’s management has elected to use discounting for the Workers’ Compensation Funds. Accordingly, the estimated liabilities for unpaid claims and claim adjustment expenses (claims liability) for the Old Fund have been discounted using a rate of 3.5 percent at June 30, 2020. The 3.5 percent discount rate assumption was a reduction of 1 percent from the prior year’s assumed rate of 4.5 percent. The change in discount rate applied resulted in an increase to the Old Fund’s liabilities of an estimated \$79,486. 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, 2020. The impact of discounting on the stated value of the liabilities is significant. Based on the composition and characteristics of the SEWC Fund, the claim liabilities for this proprietary fund are presented on an undiscounted basis.

At June 30, 2020, the total undiscounted claim liability for the West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds approximated \$1.82 billion, and the undiscounted claims liability for the Old Fund approximated \$1.47 billion. The total discounted claims liability for the West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds approximated \$1.34 billion, and the discounted claims liability for the Old Fund approximated \$1.08 billion. Invested assets of the Old Fund are not sufficient at current investment rates to retire the claims liability and the Old Fund has a significant deficit. If discounting of the Old Fund claims liability were limited to anticipated investment income, the West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds total discounted claims liability would have increased by approximately \$251 million to a claims liability of approximately \$1.60 billion and the Old Fund’s discounted claims liability would have increased to a claims liability of approximately \$1.34 billion. The West Virginia Offices of the Insurance Commissioner’s Workers Compensation Funds total deficit would increase to approximately \$247 million and the Old Funds’ deficit would increase to approximately \$315 million at June 30, 2020.

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, 2020, 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 3.5 percent for the Old Fund, 3.0 percent for the CWPF, UEF, and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 1,434,700</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	62
Changes in provision for insured events of prior fiscal years	5,876
Amortization of discount	<u>46,272</u>
Total claims and claim adjustment expenses	<u>52,210</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(150,707)</u>
Total payments	<u>(150,710)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,336,200</u>

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2020, 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	\$ 13,100
Commuted Liabilities	<u>(825)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>12,275</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	10,888
Changes in provision for insured events of prior fiscal years	<u>(624)</u>
Subtotal claims and claim adjustment expenses	10,264
Commuted liabilities expense	<u>825</u>
Total claims and claim adjustment expenses	<u>11,089</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,175)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,787)</u>
Subtotal incremental claim payments	(8,962)
Commuted Loss Reserve Fund Value	<u>(1,102)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(10,064)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 13,300</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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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 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 FY2020.

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

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

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 11% for the years ended June 30, 2020, 2019, and 2018, 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 \$1,134, \$1,120, and \$1,230 for the fiscal years ended June 30, 2020, 2019, and 2018, respectively.

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

At June 30, 2020 and 2019, the West Virginia Offices of the Insurance Commissioner reported a liability of \$1,631 and \$2,074, respectively, for its proportionate share of the net pension liability. 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 June 30, 2019 net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to the measurement date of June 30, 2018. 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, 2019, the West Virginia Offices of the Insurance Commissioner's proportionate share was 0.76%, which was a decrease of .04% from its proportionate share measured as of June 30, 2018. At June 30, 2018, the West Virginia Offices of the Insurance Commissioner's proportionate share was 0.80% which was a decrease of 0.06% from its proportionate share measured as of June 30, 2017.

For the year ended June 30, 2020 and 2019, the West Virginia Offices of the Insurance Commissioner recognized pension expense of (\$481) and \$(1), respectively. At June 30, 2020 and 2019, 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, 2020	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 590
Differences between expected and actual experience	63	142
Change in assumptions	-	299

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Changes in proportion and differences between the West Virginia Offices of the Insurance Commissioner's contributions and proportionate share of contributions	-	298
The West Virginia Offices of the Insurance Commissioner's contributions subsequent to the measurement date	<u>1,134</u>	<u>-</u>
Total	<u>\$ 1,197</u>	<u>\$ 1,329</u>

The West Virginia Offices of the Insurance Commissioner reported \$1,134 and \$1,120 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, 2020 and 2019. 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>	
2021	\$ (361)
2022	(1,111)
2023	(1)
2024	207
2025	<u>-</u>
	<u>\$ (1,266)</u>

Actuarial assumptions and methods - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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 with scale MP-2018 for active members; 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018; 122% of Pub-2010 Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018; 118% of Pub-2010 General/Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018; 118% of Pub-2010 General/Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018.

The actuarial assumptions used in the June 30, 2019 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 a 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. The target allocation and best estimates of long-term geometric rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	15.0%	3.3%
Domestic Equity	27.5%	5.8%
International Equity	27.5%	7.7%
Real Estate	10.0%	6.1%

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

Private Equity	10.0%	8.8%
Hedge Funds	10.0%	4.4%
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 rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability to changes in the discount rate - The following table presents the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	Total Net Pension Asset (Liability)		
	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
PERS	<u>\$(7,597)</u>	<u>\$(1,631)</u>	<u>\$3,416</u>

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, 2020:

	<u>2020</u>
Net OPEB liability	\$ 4,043
Deferred outflows of resources	479
Deferred inflows of resources	(2,117)
Revenues	245
OPEB expense	(147)
Contributions made by the West Virginia Offices of the Insurance Commissioner	432

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 PEIA Finance Board. The plan provides medical and prescription drug insurance, as well as life insurance, benefits to certain retirees of State

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

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

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, 2019 were:

	July 2018- Jun 2019 2019	July 2017 – June 2018 2018
Paygo premium	\$ 183	\$ 177

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.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

- 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, 2020, 2019, and 2018 were \$432, \$502, and \$528, respectively.

Actuarial Assumptions and Methods - The total OPEB liability for financial reporting purposes was determined by an actuarial valuation as of July 1, 2018 and rolled forward to June 30, 2019. 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: 7.15%, net of OPEB plan investment expense, including inflation.
- Healthcare cost trend rates: Trend rate for pre-Medicare per capita 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 2020. 9.5% for plan year end 2021, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year end 2031.
- Projected salary increases: Dependent upon pension system ranging from 3.0-6.5%, including inflation.
- Inflation rate: 2.75%.
- Mortality rates based on RP-2000 Mortality Tables.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2010 to June 30, 2015. 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 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the WV Investment Management Board and an expected short-term rate of return of 3.00% 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, 2019, are summarized below.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Asset Class	Target Allocation	Long-term Expected Real Return
Global equity	49.5%	4.8%
Core plus fixed income	13.5%	2.1%
Core real estate	9.0%	4.1%
Hedge fund	9.0%	2.4%
Private equity	9.0%	6.8%
Cash and cash equivalents	10.0%	0.3%

Discount rate - The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will continue to follow the current funding policies. Based on those assumptions and that the OPEB plan is expected to be fully funded by the fiscal year ended June 30, 2033, 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, 2020 calculated using the discount rate of 7.15%, 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 (6.15%) or one percentage point higher (8.15%) than the current discount rate.

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB liability	\$ (4,825)	\$ (4,043)	\$ (3,389)

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, 2020 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	\$ (3,260)	\$ (4,043)	\$ (4,993)

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

The June 30, 2020 net OPEB liability was measured as of June 30, 2019, and the total OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

At June 30, 2020, the West Virginia Offices of the Insurance Commissioner's proportionate share of the net OPEB liability was \$4,870. Of this amount, the West Virginia Offices of the Insurance Commissioner recognized \$4,043 as its proportionate share on the statement of net position. The remainder of \$827 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

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

June 30, 2019 and 2018. Employer contributions are recognized when due. At the June 30, 2019 measurement date, the West Virginia Offices of the Insurance Commissioner's proportion was .2437%, an increase of .0014% from its proportion of .2577% calculated as of June 30, 2018.

For the year ended June 30, 2020, the West Virginia Offices of the Insurance Commissioner recognized OPEB expense of (\$147). Of this amount, (\$392) was recognized as the West Virginia Offices of the Insurance Commissioner's proportionate share of OPEB expense and \$245 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 \$245 for support provided by the State.

At June 30, 2020, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows.

<u>June 30, 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 471
Changes in assumptions	-	820
Changes in proportion and difference between employer contributions and proportionate share of contributions	47	650
Net difference between projected and actual investment earnings	-	67
Reallocation of opt-out employer change in proportionate share	-	109
Contributions after the measurement date	<u>432</u>	<u>-</u>
Total	<u>\$ 479</u>	<u>\$ 2,117</u>

The West Virginia Offices of the Insurance Commissioner will recognize the \$432 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, 2020. 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>
2021	\$ (785)
2022	(783)
2023	(508)
2024	6
2025	<u>-</u>
	<u>\$ (2,070)</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, 2020.

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.

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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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.

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-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 2020, the SEWC Loss Reserve Fund received credits of \$1,001 from Zurich and paid \$578 to Encova in accordance with the adjustment formula. After the fourth and final valuation and adjustment to the Loss Reserve Fund for each policy period, the transfer of risk to Zurich is complete. Accordingly, the liabilities and Loss Reserve Fund amounts associated with the finalized policy period are then commuted to Zurich. At June 30, 2020, the OIC commuted \$1,102 from the Loss Reserve Fund to Zurich.

Premiums received from pool participants were \$14,320 while premiums paid for insurance coverage were \$6,846, during the year ended June 30, 2020, resulting in net premiums of \$7,474. The Loss Reserve Fund balance at June 30, 2020 was \$12,534.

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

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									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues	\$ 52.1	\$ 54.5	\$ 54.9	\$ 45.2	\$ 46.0	\$ 106.0	\$ 35.8	\$ 35.9	\$ 18.2	\$ 1.8
Statutory Allocations	200.8	199.0	203.6	215.9	231.3	122.2	8.2	3.9	(0.8)	(2.3)
Investment Income (Loss)	109.0	39.5	65.4	125.0	14.9	19.9	135.0	76.9	67.5	53.4
Total Income (1)	361.9	293.0	323.9	386.1	292.2	248.1	179.0	116.7	84.9	52.9
Other expenses (2)	20.0	18.4	15.3	12.2	11.2	11.0	10.3	9.6	8.4	7.7
Original Incurred Loss (3)	0.4	0.8	0.8	0.7	0.3	1.3	0.5	0.2	0	0
Cumulative Payments (4):										
Year 1	0.0	0.1	0.1	0.1	0.0	0.4	0.0	0.1	0	0
Year 2	0.1	0.2	0.3	0.2	0.6	0.9	0.5	0.2	0	
Year 3	0.2	0.3	0.7	0.5	1.3	1.2	0.6	0.3		
Year 4	0.2	0.3	0.8	1.0	1.6	1.4	0.6			
Year 5	0.3	0.6	0.9	1.2	1.8	1.5				
Year 6	0.3	0.8	1.1	1.5	1.9					
Year 7	0.4	0.9	1.2	1.5						
Year 8	0.4	0.9	1.3							
Year 9	0.5	1.0								
Year 10	0.5									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	0.4	0.8	0.8	0.7	0.3	1.3	0.5	0.2	0	0.1
Year 2	0.6	0.3	1.0	0.4	2.1	1.4	0.7	0.4	0	
Year 3	0.6	0.5	1.0	2.2	2.1	1.5	0.7	0.4		
Year 4	0.7	0.4	1.5	2.6	2.4	1.6	0.7			
Year 5	0.7	1.4	1.5	2.5	2.5	1.8				
Year 6	0.8	1.6	1.9	2.4	2.6					
Year 7	0.9	1.6	1.9	2.2						
Year 8	0.9	2.0	2.1							
Year 9	1.0	1.5								
Year 10	0.9									
(Decrease) Increase in Estimated Incurred Claims and Expense from end of Policy Year (6)	0.5	0.7	1.3	1.5	2.3	0.5	0.2	0.2	0	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 3.5 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, 2020				
	WC Old Fund	CWPF	UEF	Self-Insured Funds	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,157,100	\$ 225,800	\$ 600	\$ 51,200	\$ 1,434,700
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	57	5	62
Changes in provision for insured events of prior fiscal years	10,581	(2,862)	132	(1,975)	5,876
Amortization of discount	38,306	6,476	15	1,475	46,272
Total claims and claim adjustment expenses	<u>48,887</u>	<u>3,614</u>	<u>204</u>	<u>(495)</u>	<u>52,210</u>
Payments					
Claims and claim adjustment expenses attributable to insured events of current fiscal year	-	-	(3)	-	(3)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(126,387)	(20,014)	(201)	(4,105)	(150,707)
Total payments	<u>(126,387)</u>	<u>(20,014)</u>	<u>(204)</u>	<u>(4,105)</u>	<u>(150,710)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,079,600</u>	<u>\$ 209,400</u>	<u>\$ 600</u>	<u>\$ 46,600</u>	<u>\$ 1,336,200</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			
	2017	2018	2019	2020
Premium Revenue Earned	\$ 18,356	\$ 19,685	\$ 16,622	\$ 14,320
Premiums Paid to Insurance Companies	(5,455)	(8,014)	(7,318)	(6,846)
Total Income/Net Premiums (1)	12,901	11,671	9,304	7,474
Other Expenses (2)	1,535	1,201	791	433
Original Incurred Loss (3)	10,897	11,918	11,901	10,888
Cumulative Payments (4)				
Year 1	3,157	3,283	3,723	3,175
Year 2	6,268	6,719	7,932	
Year 3	7,335	7,919		
Year 4	7,714			
Re-estimated Incurred Claims and Expenses (5)				
Year 1	10,897	11,990	11,901	10,888
Year 2	9,708	9,596	11,597	
Year 3	8,711	9,219		
Year 4	8,768			
(Decrease) Increase in Estimated Incurred Claims and Expense from End of Policy Year (6)	(2,129)	(2,699)	(304)	-

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, 2020
Unpaid claims and claim adjustment expenses at beginning of year	\$ 13,100
Commuted Liabilities	<u>(825)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>12,275</u>
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	10,888
Changes in provision for insured events of prior fiscal years	<u>(624)</u>
Subtotal claims and claim adjustment expenses	10,264
Commuted liabilities expense	<u>825</u>
Total claims and claim adjustment expenses	<u>11,089</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,175)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,787)</u>
Subtotal incremental claim payments	(8,962)
Commuted Loss Reserve Fund Value	<u>(1,102)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(10,064)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u><u>\$ 13,300</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, 2020
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
Revenues:				
2020 Revenue	\$ 39,860	\$ 39,860	\$ 37,223	\$ (2,637)
Total Revenue Available for Appropriation	<u>39,860</u>	<u>39,860</u>	<u>37,223</u>	<u>(2,637)</u>
Expenditures:				
Personal Services	17,614	17,614	11,898	5,716
Employee Benefits	7,876	7,876	3,765	4,111
Contractual and Professional	5,630	5,630	1,338	4,292
Other	<u>10,597</u>	<u>10,597</u>	<u>4,623</u>	<u>5,974</u>
Total Expenditures Charged to Appropriation	<u>41,717</u>	<u>41,717</u>	<u>21,624</u>	<u>20,093</u>
Excess of Revenue Over Expenditures	(1,857)	(1,857)	15,599	17,456
Reappropriation to the State of WV General Fund	-	-	(15,000)	(15,000)
Budgetary Fund Balance, Beginning of Year	<u>86,719</u>	<u>66,568</u>	<u>23,318</u>	<u>(43,250)</u>
Budgetary Fund Balance, End of Year	<u>\$ 84,862</u>	<u>\$ 64,711</u>	<u>\$ 23,917</u>	<u>\$ (40,794)</u>

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, 2020, to comparable amounts presented in conformity with accounting principles generally accepted in the United States is set forth in the schedule on page 55.

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, 2020
(In Thousands)

	<u>Operating Funds</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison schedule	\$ 37,223
Differences-Budget to GAAP:	
Reversal of prior year accruals	(5,109)
Accruals booked for current year	<u>3,812</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental fund	<u>\$ 35,926</u>
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 21,624
Differences-Budget to GAAP:	
Reversal of prior year accruals	(1,638)
Accruals booked for current year	<u>1,990</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance governmental fund	<u>\$ 21,976</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)(percentage)	0.7586%	0.8030%	0.8573%	0.8749%	0.9164%	0.9440%	0.9775%
Employer's proportionate share of the net pension liability (asset)	\$ 1,631	\$ 2,074	\$ 3,700	\$ 8,042	\$ 5,118	\$ 3,484	\$ 9,756
Employer's covered payroll*	\$ 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	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 **	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 Eight Fiscal Years
(In Thousands)

	<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	\$ 1,134	\$ 1,120	\$ 1,230	\$ 1,420	\$ 1,636	\$ 1,740	\$ 1,833	\$ 1,832
Contributions in relation to the contractually required contribution	<u>(1,134)</u>	<u>(1,120)</u>	<u>(1,230)</u>	<u>(1,420)</u>	<u>(1,636)</u>	<u>(1,740)</u>	<u>(1,833)</u>	<u>(1,832)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 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%	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
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-.054%
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, 2018.

West Virginia Offices of the Insurance Commissioner
Schedule of Proportionate Share of the Net OPEB Liability
June 30, 2020
(In Thousands)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 432	\$ 502	\$ 528
Contributions in relation to the statutorily required contribution	<u>(432)</u>	<u>(502)</u>	<u>(528)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 10,224	\$ 10,417	\$ 10,456
Contributions as a percentage of covered-employee payroll	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>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, 2020 (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	\$ 1,024,986	\$ 225,754	\$ 14,111	\$ 85,152	\$ 1,350,003
Receivables, Net:					
Statutory Allocations	6	-	-	-	6
Assessments	-	-	37	-	37
Premiums	113	-	-	-	113
Total Current Assets	<u>1,025,105</u>	<u>225,754</u>	<u>14,148</u>	<u>85,152</u>	<u>1,350,159</u>
Total Assets	<u>1,025,105</u>	<u>225,754</u>	<u>14,148</u>	<u>85,152</u>	<u>1,350,159</u>
LIABILITIES					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	113,200	18,800	100	6,400	138,500
Accrued Expenses and Other Liabilities	9,270	71	-	30	9,371
Total Current Liabilities	<u>122,470</u>	<u>18,871</u>	<u>100</u>	<u>6,430</u>	<u>147,871</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	966,400	190,600	500	40,200	1,197,700
Total Noncurrent Liabilities	<u>966,400</u>	<u>190,600</u>	<u>500</u>	<u>40,200</u>	<u>1,197,700</u>
Total Liabilities	<u>1,088,870</u>	<u>209,471</u>	<u>600</u>	<u>46,630</u>	<u>1,345,571</u>
Net position:					
Restricted for:					
Coal Workers' Pneumoconiosis	-	16,283	-	-	16,283
Uninsured Fund	-	-	13,548	-	13,548
Self-Insured Fund	-	-	-	38,522	38,522
Unrestricted (Deficit)	<u>(63,765)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,765)</u>
Total Net Position (Deficit)	<u>\$ (63,765)</u>	<u>\$ 16,283</u>	<u>\$ 13,548</u>	<u>\$ 38,522</u>	<u>\$ 4,588</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, 2020
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Operating Revenues					
Assessments	\$ -	\$ -	\$ 356		\$ 356
Employer Surcharge	1,220	-	-	-	1,220
Premium Revenue, Net	103	-	-	-	103
Other Operating Revenue	148	-	-	-	148
Total Operating Revenue	1,471	-	356	-	1,827
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	48,887	3,614	204	(495)	52,210
General and Administration	5,562	919	94	366	6,941
Total Operating Expenses and Claims Provision	54,449	4,533	298	(129)	59,151
Operating (Loss) Income	(52,978)	(4,533)	58	129	(57,324)
Nonoperating Revenues					
Investment Earnings	41,895	7,983	469	3,059	53,406
Severance Tax, Net	(2,255)	-	-	-	(2,255)
Total Nonoperating Revenues	39,640	7,983	469	3,059	51,151
Change in Net Position (Deficit)	(13,338)	3,450	527	3,188	(6,173)
Total Net Position (Deficit) - Beginning of Year	(50,427)	12,833	13,021	35,334	10,761
Total Net Position (Deficit) - End of Year	\$ (63,765)	\$ 16,283	\$ 13,548	\$ 38,522	\$ 4,588

West Virginia Offices of the Insurance Commissioner
Schedule of Cash Flows - Workers' Compensation Information
For the Fiscal Year Ended June 30, 2020
(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>
Cash Flows from Operating Activities					
Receipts from Fees and Assessments	\$ 2,014	\$ -	\$ 30	\$ -	\$ 2,044
Receipts from Employers	(9)	-	356	-	347
Receipts from Other Operating Revenue	148	-	-	-	148
Payments to Claimants and Providers	(126,387)	(20,014)	(204)	(4,105)	(150,710)
Payments to Employees	(8)	-	-	-	(8)
Payments to Suppliers	2,332	(923)	(94)	(336)	979
	<u>(121,910)</u>	<u>(20,937)</u>	<u>88</u>	<u>(4,441)</u>	<u>(147,200)</u>
Net Cash (Used in) Provided by Operating Activities					
Cash Flows from Noncapital Financing Activities					
Statutory Allocations (Refunds)	(2,258)	-	-	-	(2,258)
	<u>(2,258)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,258)</u>
Net Cash (Used in) Provided by Noncapital Financing Activities					
Cash Flows from Investing Activities					
Investment Earnings	41,895	7,983	469	3,059	53,406
	<u>41,895</u>	<u>7,983</u>	<u>469</u>	<u>3,059</u>	<u>53,406</u>
Net Cash Provided by (Used in) Investing Activities					
	<u>41,895</u>	<u>7,983</u>	<u>469</u>	<u>3,059</u>	<u>53,406</u>
Net Increase (Decrease) in Cash and Cash Equivalents					
	(82,273)	(12,954)	557	(1,382)	(96,052)
Cash and Cash Equivalents - Beginning of Year	1,107,259	238,708	13,554	86,534	1,446,055
Cash and Cash Equivalents - End of Year	<u>\$ 1,024,986</u>	<u>\$ 225,754</u>	<u>\$ 14,111</u>	<u>\$ 85,152</u>	<u>\$ 1,350,003</u>
Reconciliation of Operating (Loss) Income to Net Cash provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (52,978)	\$ (4,533)	\$ 58	\$ 129	\$ (57,324)
Adjustments to Reconcile Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	682	-	30	-	712
Estimated Liability for Claims and Claim Adjustment Expenses	(77,500)	(16,400)	-	(4,600)	(98,500)
Accrued Expenses and Other Liabilities	7,886	(4)	-	30	7,912
	<u>7,886</u>	<u>(4)</u>	<u>-</u>	<u>30</u>	<u>7,912</u>
Net Cash (Used in) Provided by Operating Activities					
	<u>\$ (121,910)</u>	<u>\$ (20,937)</u>	<u>\$ 88</u>	<u>\$ (4,441)</u>	<u>\$ (147,200)</u>

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, 2020 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 12, 2020.

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.

The Virginia Center
1411 Virginia Street, East | Suite 100
Charleston, WV 25301

MAIN (304) 343-4126
FAX (304) 343-8008

Towne Square | 201 Third Street
PO Box 149
Parkersburg, WV 26102

MAIN (304) 485-6584
FAX (304) 485-0971

Wharf District
68 Clay Street | Suite C
Morgantown, WV 26501

MAIN (304) 554-3371
FAX (304) 554-3410

suttlecpas.com
cpa@suttlecpas.com

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.



**Charleston, West Virginia
October 12, 2020**