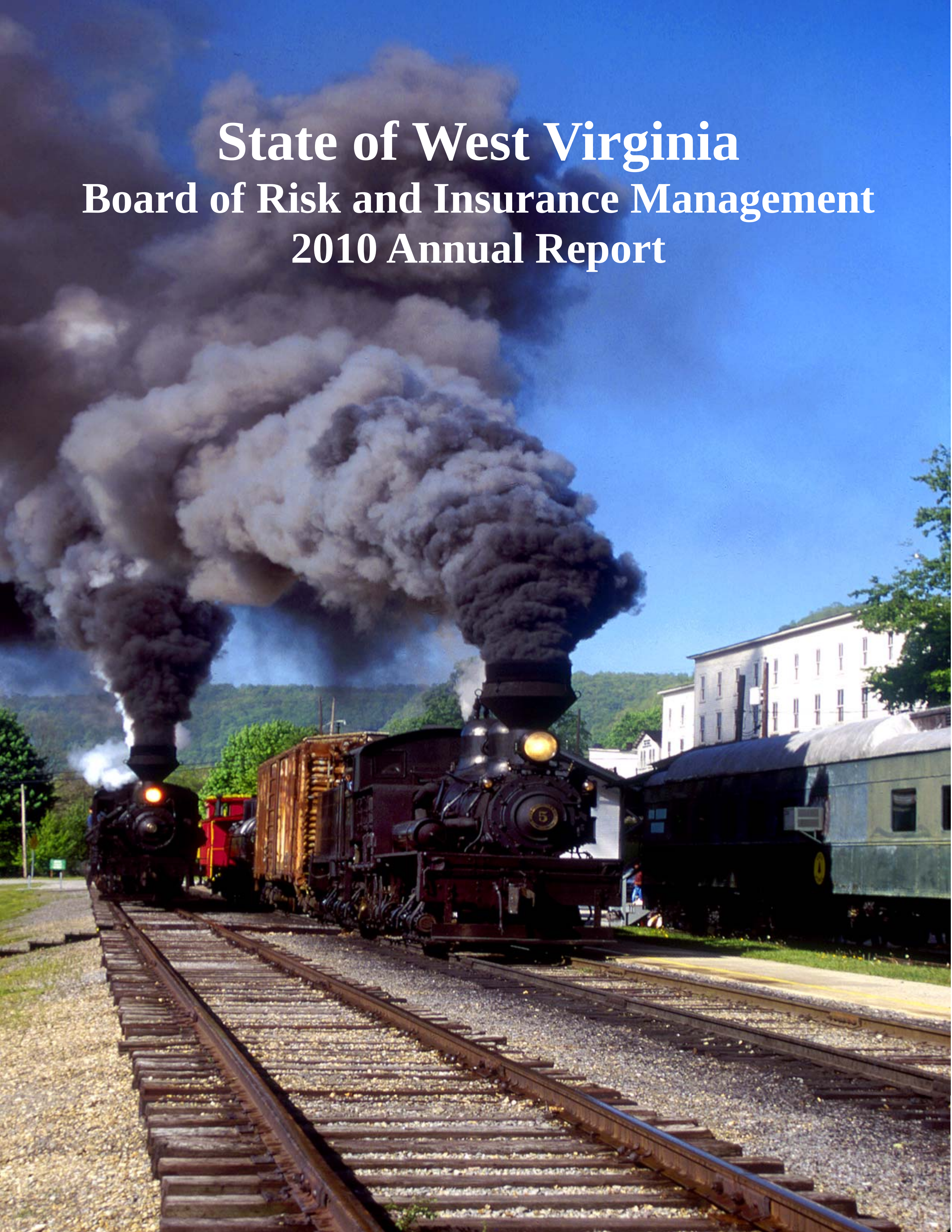
State of West Virginia
Board of Risk and Insurance Management
2010 Annual Report



STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

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JOE MANCHIN III
GOVERNOR

Charles E. Jones, Jr.
Executive Director
charles.e.jones@wv.gov

Robert Ferguson, Jr.
Cabinet Secretary

August 31, 2010

Honorable Joe Manchin, III, Governor
State of West Virginia

Governor Manchin:

The Annual Report of the West Virginia Board of Risk and Insurance Management (BRIM) for the year ended June 30, 2010 is hereby respectfully submitted. This report was prepared by the staff of BRIM. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation rests with the management of BRIM. We believe the data, as presented, is accurate and that it is presented in a manner designed to fairly set forth the results of the operations of BRIM. All information necessary to enable the reader to gain an understanding of BRIM's operational activities has been included.

The Annual Report contains discussions of the financial activities and highlights for the past several fiscal years, and BRIM's organization chart. The minutes of the Board of Directors meetings are attached as a supplement to this report.

BRIM is reported as an enterprise fund operating as a single business segment, included as a blended component unit of the primary government in the State's Comprehensive Annual Financial Report (CAFR). After applying the criteria set forth in generally accepted accounting principles, BRIM management has determined there are no organizations that should be considered component units of BRIM.

years. BRIM operates by the authority granted in Chapter 29, Article 12; Chapter 33, Article 30; and Chapter 20, Article 5H of the West Virginia Code as amended, and the provisions of Executive Order 12-86. The day-to-day operations of BRIM are managed by the executive director, who is responsible for the implementation of policies and procedures established by the Board members.

BRIM is charged with providing insurance coverage to all state agencies. Additionally, BRIM provides these services to cities, counties, and non-profit organizations throughout the State under the provisions of Senate Bill #3 (SB#3). BRIM also provides a coal mine subsidence reinsurance program, which allows homeowners and businesses to obtain insurance coverage up to $75,000 for collapses and damage caused by underground coal mines.

BRIM uses various means to cover its insureds. Although BRIM is not indemnified by an insurance company, it contracts with an insurance company that is compensated for claims handling with a flat fee. The primary methods used by BRIM to fund claims payments results in a more stable and predictable funding of claims and claims related expenses, allowing for better cash management for the organization.

Beginning in fiscal year 1996, liability claims were handled through a “Modified Paid Loss Retrospective” rating program, which required an up-front deposit to an insurance company. As losses occur, payments and reserves are established and charged against the deposit. When the amount of paid losses within a twelve-month period exceeds the amount of the deposit, a retrospective billing is produced and BRIM pays that additional amount to the insurance company.

Beginning in fiscal year 2006, BRIM deposited monies with a financial institution, as trustee, to hold advance deposits in an escrow account for BRIM liability claims with loss dates after June 30, 2005. The funds held in escrow, together with their earnings, will be used to fund the payment of the claims and claims adjustment expenses related to these liability claims. Periodically, monies are transferred from the escrow account to the insurance company administering these claims in order to reimburse the insurance company for payments that they have issued on these claims and claims adjustment expenses on BRIM’s behalf.

Property losses are retained by BRIM up to $1 million. Additionally, excess coverage is provided beyond the $1 million retention up to a limit of $400 million per occurrence. This coverage provides reimbursement of loss at the stated or reported value less a $2,500 deductible. Under the mine subsidence program, participating insurers pay BRIM a reinsurance premium, which is equal to the gross premiums collected for mine subsidence coverage, less cancellations, less a 30% ceding commission.

BRIM currently insures approximately 160 state agencies, approximately 900 Senate Bill #3 entities, plus provides mine subsidence reinsurance to approximately 15,000 home and business owners.

Financial Highlights

The financial statements of BRIM are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. In 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." BRIM elected to implement the provisions of this Statement beginning in fiscal year 1994. As permitted by the Statement, BRIM has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

Internal Accounting Structure and Budgetary Control

As mentioned, BRIM reports and meets the requirements of an enterprise fund. BRIM's assets and liabilities are accounted for in a single fund.

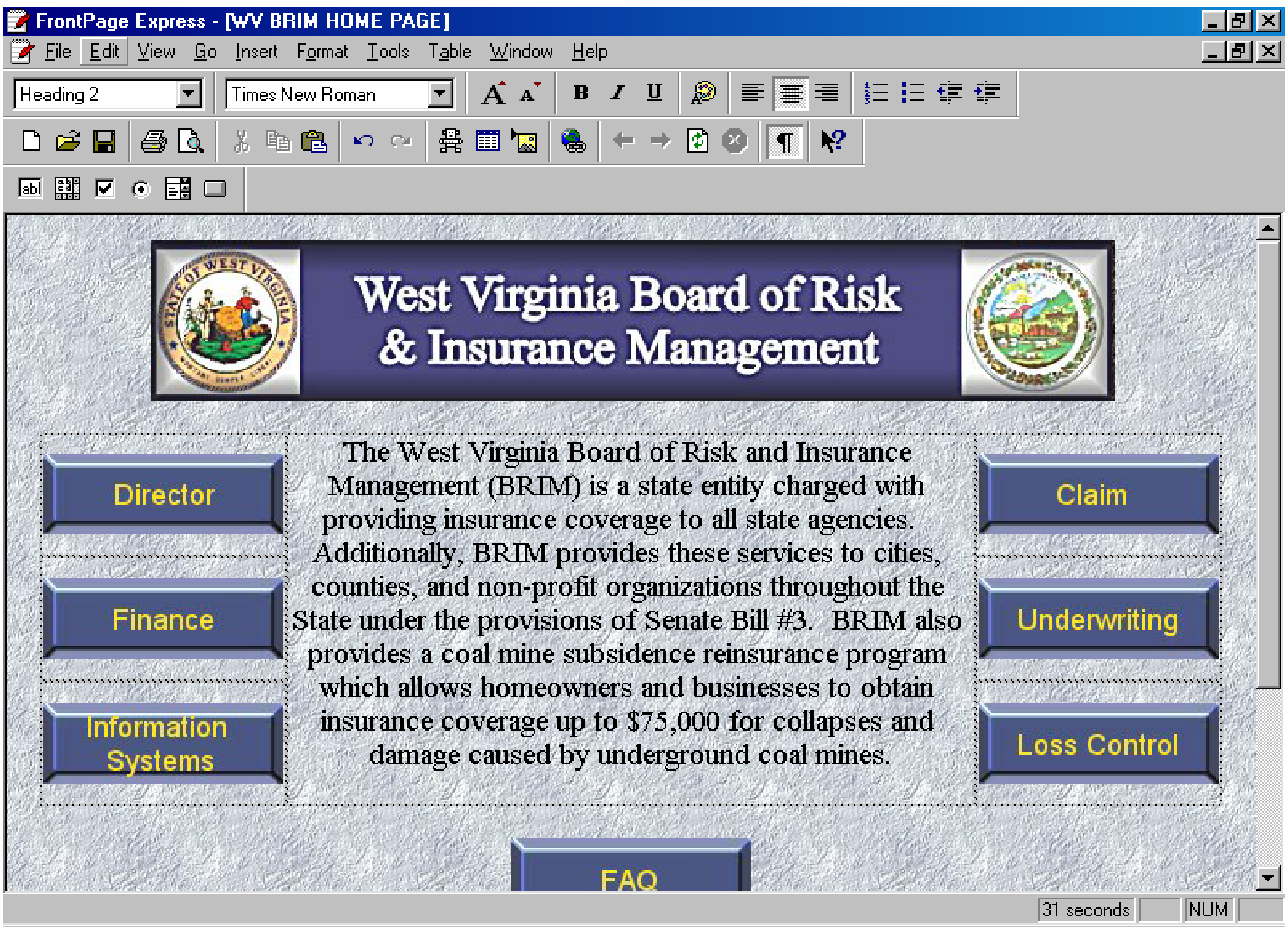
Internal controls have been put in place to ensure the assets and property of BRIM are protected from theft, loss or misuse and to provide adequate accounting data for preparing Generally Accepted Accounting Principles (GAAP) based financial statements.

Internal controls are established to provide reasonable assurance that objectives are met. Additionally, the concept of reasonable assurance should recognize that the cost to administer the control should not exceed the benefits derived from the control.

An annual budget is prepared prior to the start of each fiscal year for use as a management tool and for evaluating performance.

BRIM On-Line

We invite you to visit BRIM's website at http://www.state.wv.us/BRIM. The website is designed to inform the public about our program and to provide assistance to our customers. One feature allows claimants to submit a claim electronically for faster processing and handling. Detailed instructions on how to fill out a renewal questionnaire are also found on-line. A variety of frequently asked questions on topics ranging from billing to underwriting can also be found on this site.



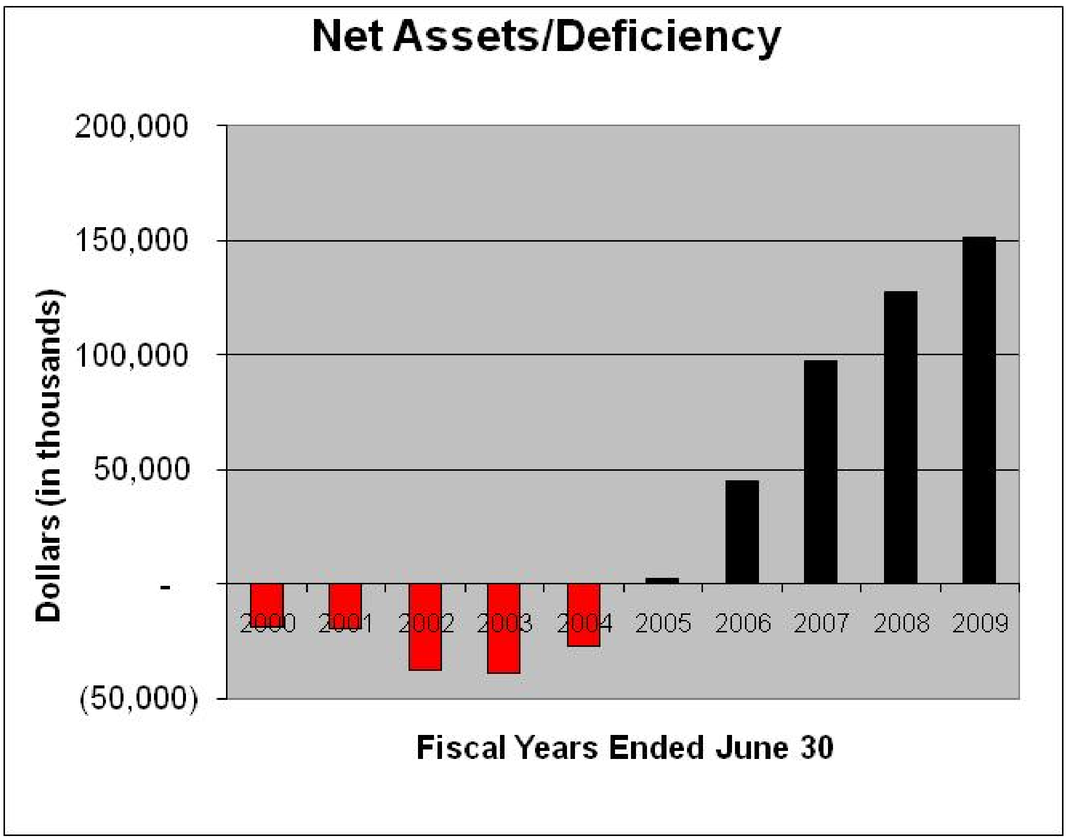
Results of Operations

Below are audited results from operations of four most recent fiscal years ended June 30:

	2006	2007	2008	2009
		(In thousands)		
Operating Revenues:				
Premiums	$82,824	$80,248	$72,986	$62,427
Less Excess Coverages	(4,145)	(6,151)	(6,394)	(5,944)
Net Operating Revenues	78,679	74,097	66,592	56,483
Operating Expenses:				
Claims & Claims Adjustment	37,076	35,136	42,982	36,604
General Administrative	4,180	4,305	4,247	3,894
Total Operating Expenses	41,256	39,441	47,229	40,498
Operating Income (Loss)	37,423	34,656	19,363	15,985
Non-Operating Revenues:				
Interest Income, Appropriations	6,894	18,047	10,572	7,343
Net Income	44,317	52,703	29,935	23,328
Retained earnings at beginning of year	527	44,844	97,547	127,630
Change in accounting principle for other post employment benefits	--	--	148	--
Retained earnings at end of year	$44,844	$97,547	$127,630	$150,958

BRIM has worked diligently for the past several years to maintain positive retained earnings and eliminate its unfunded liability. In 1995 the unfunded liability was $60 million dollars. Favorable loss patterns and adequate funding enabled BRIM to achieve positive retained earnings in 1998, 1999, 2005, 2006, 2007, 2008 and 2009. For the three years prior to 2005, BRIM had shown a deficit in retained earnings. Several factors, including unanticipated losses, contributed to BRIM losing money for those years. BRIM may occasionally experience some adverse loss development. Premiums continue to be calculated on a basis consistent with exposure and loss trends. It is also important to note that BRIM has not received any state appropriations since 2005. BRIM will continue to closely monitor claims activity with our independent actuary and will bill premiums accordingly. Efforts are being undertaken to increase the emphasis on loss control by state agencies and Senate Bill #3 entities, including educational classes and seminars on sexual harassment, discrimination, liability deductibles, defensive driving classes, and personally meeting with Cabinet Secretaries to discuss loss histories of the agencies under their supervision.

The chart below shows the net assets/deficiency for the past ten years. The years shown in red represent the unfunded liability and years in black represent positive retained earnings.



West Virginia Patient Injury Compensation Fund

House Bill 2122, signed into law on April 8, 2003, created a patient injury compensation fund study board "to study the feasibility of establishing a patient injury compensation fund to reimburse claimants in medical malpractice actions for any portion of economic damages awarded which are uncollectible due to statutory limitations on damage awards for trauma care and/or the elimination of joint and several liability of tortfeasor health care providers and health care facilities." The fund would be administered and operated by BRIM. Eligibility for reimbursement is based on the claimant's inability, after exhausting all reasonable means available for recovering the award, to collect all or part of the economic damages awarded due to the caps.

Through the combined efforts of the BRIM staff, Insurance Commissioner's Office and West Virginia Hospital Association, the study was completed and a report was submitted to the Joint Committee on Government and Finance of the West Virginia Legislature on December 1, 2003, recommending that the fund be established. On April 2, 2004, House Bill 4740 was signed into law, effective June 11, 2004. During fiscal year 2005, BRIM began receiving the appropriated funds into this account.

Audit

BRIM is required by the Financial Accounting and Reporting Section (FARS) of the Department of Administration to have an annual independent audit. The firm of Ernst & Young, LLP was selected to perform the audit for the fiscal year ended June 30, 2010. The June 30, 2010 report will be available near the end of October 2010.

Risk Management

BRIM is charged with providing loss control and risk management services to all insured entities throughout the State. BRIM accomplishes this task through a number of programs. All property insured by BRIM with a value of $1 million or more is inspected annually. Additionally, BRIM holds various seminars and training programs for its insureds throughout the year. Topics include boiler operation, employment practices, and general loss prevention.

Cash Management

BRIM's cash and cash equivalents are managed by the Board of Treasury Investments according to the provisions of the Code of West Virginia. BRIM management monitors cash balances on both a daily and a monthly basis.

Certificate of Achievement for Excellence in Financial Reporting

The West Virginia Board of Risk and Insurance Management's Comprehensive Annual Financial Report for the year ended June 30, 2009, from which the information on page(s) one through eight have been drawn, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Comprehensive Annual Financial Report

Since June 30, 1995, BRIM has issued a Comprehensive Annual Financial Report (CAFR). This report contains an introductory section, a financial section and a statistical section. The financial section will contain audited data for June 30, 2010. The CAFR for fiscal year 2010 will be issued before December 31, 2010. A copy of this report will be sent to the Governor's Office upon completion.

Acknowledgments

This report would not be possible without the assistance of the BRIM staff and the support of the Board members.

Sincerely,

Charles E. Jones, Jr.
Executive Director

State Listing of Coverages in Effect for Fiscal Year 2010

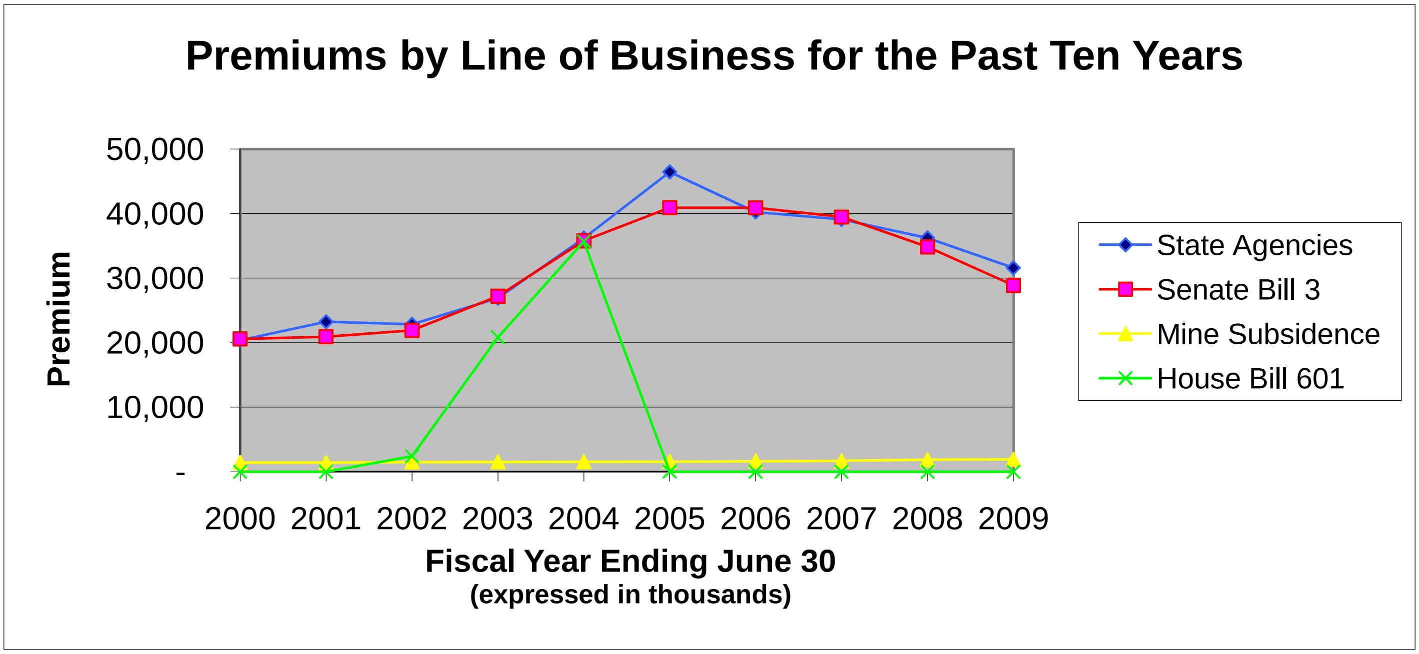
	LIABILITY	LIMIT OF LIABILITY
1.	Automobile Liability Policy No. RMCA 093-61-78 Company: AIG Insurance	$ 1,000,000 per occurrence
2.	General Liability Policy No. RMGL 093-63-76 Company: AIG Insurance	$ 1,000,000 per occurrence
3.	Aircraft Liability Policy No. AV 3380 147-07 Company: AIG Insurance	$ 1,000,000 per occurrence
4.	Excess Liability-Bd. of Education Policy No. NXG358846K Company: General Star National	$ 2,000,000 per occurrence or claim
	Excess Liability-Bd. of Education Company: National Casualty Company Policy No. XL00018068	$ 3,000,000 per occurrence or claim

	PROPERTY	LIMIT OF LIABILITY
1.	Blanket Property Policy No. FS D3586782A 007 Company: Westchester	$ 25,000,000 primary layer $ 1,000,000 deductible
	Policy No. NHD 363338 Company: RSUI	$ 175,000,000 excess of 25,000,000
	Policy No. CICA 2903 Commonwealth Insurance Company of America	$ 75,000,000 excess of 200,000,000
	Policy No.: MAF733355-09 Company: Axis	$ 125,000,000 in excess of 275,000,000
	Policy No. I20644904-007 Company: Westchester	$ 10,000,000 flood with $ 1,000,000 deductible
2.	Boiler and Machinery Policy No. 76426824 Company: Chubb	$ 5,000,000 per equipment covered excess of 1,000,000
3.	Public Insurance Official Position Schedule Bond Bond No. 104511294 Company: Travelers	Variable amounts as set by Statute

Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

	Top 10 State Agency Premiums for Fiscal Year 2009	
1	West Virginia State Police	$5,606,195
2	West Virginia University	5,510,800
3	Division of Highways	4,901,858
4	Department of Health & Human Resources	4,118,442
5	Marshall University	2,065,082
6	Corrections Division	915,292
7	Regional Jail and Correctional Facility Authority	518,471
8	West Virginia State Parks	517,694
9	Division of Environmental Protection	467,514
10	Department of Natural Resources	448,135
	Total Top Ten	**$25,069,483**
	Total State Premium Billing for 2009	**$31,836,818**
	% of top 10 in relation to all state agency billings	**78.74%**

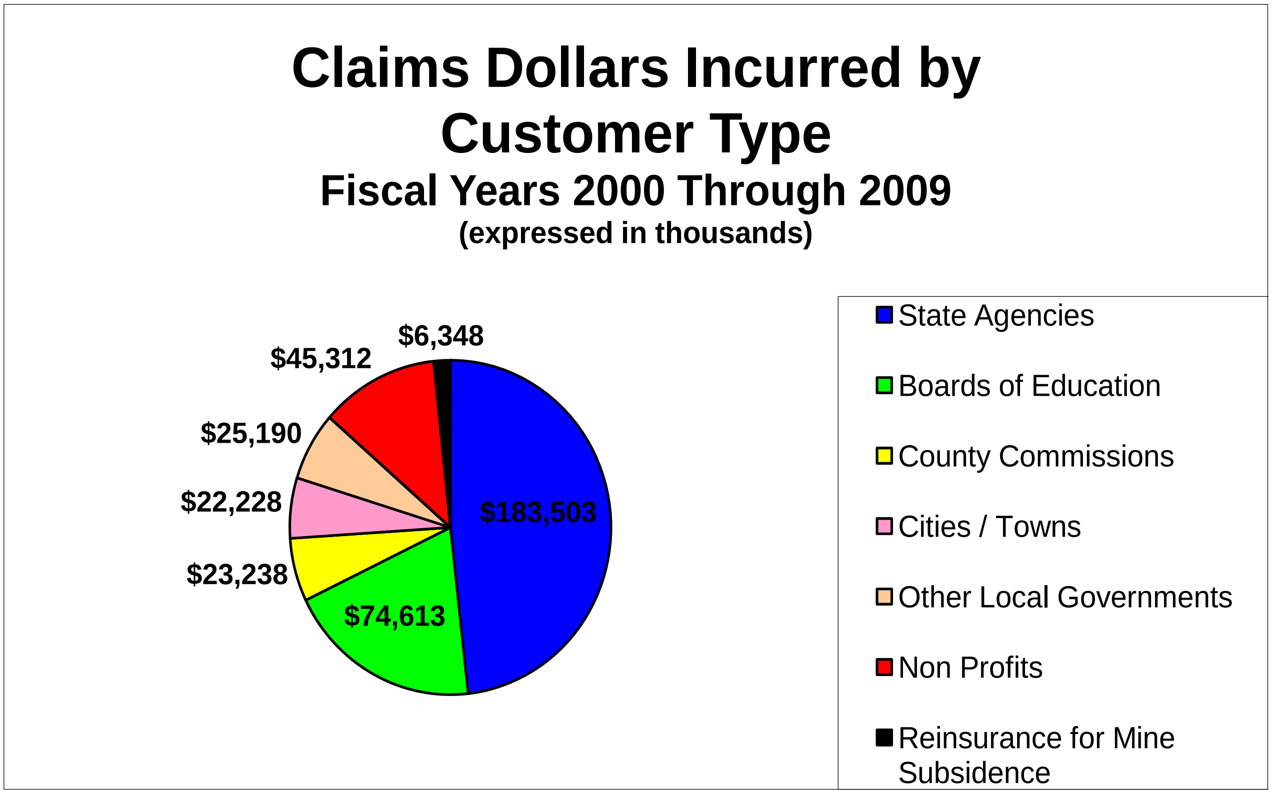
	Top 20 SB 3 Premiums for Fiscal Year 2009	
1	Kanawha County Board of Education	$1,970,276
2	West Virginia University Medical Corporation	856,612
3	Raleigh County Board of Education	692,570
4	Berkeley County Board of Education	655,411
5	Mercer County Board of Education	556,912
6	Wayne County Board of Education	515,508
7	Harrison County Board of Education	488,985
8	Putnam County Board of Education	453,329
9	Cabell County Board of Education	433,652
10	Wood County Board of Education	431,907
11	Monongalia County Board of Education	419,191
12	City of St. Albans	414,041
13	Marion County Board of Education	411,022
14	University Physicians and Surgeons	349,469
15	Raleigh County Commission	347,094
16	Jefferson County Commission	346,598
17	Logan County Board of Education	337,336
18	Fayette County Board of Education	334,965
19	McDowell County Board of Education	314,264
20	Jefferson County Board of Education	310,563
	Total Top Twenty	**$10,639,705**
	Total SB 3 Premium Billing for 2009	**$32,006,266**
	% of top 20 in relation to total SB 3 billings	**33.24%**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
2000	$ 20,373	$ 20,597	$ 1,434	-
2001	$ 23,241	$ 20,951	$ 1,414	-
2002	$ 22,840	$ 21,922	$ 1,505	$ 2,426
2003	$ 26,915	$ 27,198	$ 1,528	$ 20,847
2004	$ 36,203	$ 35,793	$ 1,551	$ 35,721
2005	$ 46,465	$ 40,952	$ 1,595	$ 18
2006	$ 40,252	$ 40,920	$ 1,652	-
2007	$ 39,091	$ 39,481	$ 1,676	-
2008	$ 36,259	$ 34,875	$ 1,852	-
2009	$ 31,596	$ 28,902	$ 1,929	-

The chart above shows premiums by line of business for the past ten fiscal years, expressed in thousands of dollars. This chart illustrates a downward trend of premiums for State Agencies and Senate Bill 3 customers since 2005.

Source: BRIM's internal financial statements.



Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

AGENDA
BOARD MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND
INSURANCE MANAGEMENT

May 25, 2010

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes February 23, 2010
Charles E. Jones, Jr. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

May 25, 2010

BOARD MEMBERS:	John R. Lukens, Chairman Bruce Martin, Vice Chairman Martin J. Glasser, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Jerry Gladwell, Underwriting Manager Jeremy Wolfe, Loss Control Manager Chuck Mozingo, Assistant Claim Manager Melody Duke, Controller Charles "Blaine" Nelson, Deputy Underwriting Manager Carl Baldwin, Loss Control Specialist Steve Fowler, BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, Chartis Joanna Valleau, Chartis Harry "Skip" Morris, Wells Fargo
GUESTS:	Sandy Price, WVU Health Sciences Center Lindsay Paulin, WVU Health Sciences Center Michael J. Gansor, WVU Risk Management Tracy Smith, Marshall University Tom Sauvageot, WV Investment Management Board

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Lukens at 1:07 p.m. on Tuesday, May 25, 2010, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Glasser moved the approval of the minutes of the February 23, 2010 Board Meeting. The motion was seconded by Mr. Martin. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

The monthly report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of March 31, 2010, the unaudited income statement for the three months ending March 31, 2010, and the line of business statements (Total State, Total SB3, Mine Subsidence and BRIM HB 601) for the same periods were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the January, February and March 2010 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the October, November and December 2009 billing. The acknowledgement form was retained by the Finance Department.

The Loss Control Report of the Deputy Director/Claim Manager was received and filed, a copy of which is attached and made a part of the record.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 1: 43 p.m.

______________________________ ______________________
Board Chairman Date

Executive Director's Report

May 25, 2010

A. Significant Events

1. Fraudulent Claim against the Office of the Auditor (OA). Funds meant for two vendors who had done work for the Office of the Insurance Commissioner (OIC) and for Department of Health and Human Resources (DHHR) were diverted to a third party when fraudulent information was given to the Office of the Auditor. BRIM paid its portion of the claim to OIC and DHHR and turned the claim over to the Office of the Attorney General (OAG) for their review and disposition and to protect the interests of BRIM.

   I met with personnel from the OA and OAG on March 3, 2010. To date, suit has not been filed, but the OAG is still considering its and BRIM's options.

2. The Casualty Insurance Program with Chartis was renewed for another five year time frame (one year contract renewable four times). See the attached cost spreadsheet.

3. Negotiated reduction of fees for management of Trust Account with Bank of New York.

4. Upcoming quotation from General Star for Excess Liability for County Boards of Education – meeting with GenStar on 3/10.

5. Upcoming quotation from Wells Fargo property insurance carrier - meeting on 3/30.

6. Appraising all state agency properties to maintain insurance to value.

7. Project to appraise County Boards of Education properties for insurance to value 3/25 – AIG v. CNA discussion.

B. Marshall University/WVU Medical Malpractice Deductible Program

- As of April 30, 2010, Marshall has deposited $2,494,661.38 into the escrow account. The year-to-date cumulative interest totals $117,577.97. There have been 26 disbursements totaling $785,540.56 made during fiscal year 2010 thus far.

- As of April 30, 2010, a total of $6,664,195.54 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $118,396.27. There have been 76 disbursements totaling $847,921.74 made during fiscal year 2010 thus far.

C. Litigation

The May 2010 report from Chartis for the period ending April 30, 2010 reveals that in April, one case was tried to verdict. Year-to-date, three cases were tried to defense verdicts.

New lawsuits have decreased 37.4% over year-to-date 2009; closed lawsuits have decreased 9.9%, and pending lawsuits have decreased 6.1%.

D. Legislative Issues

1. House Bill 4033 established a Fleet Management Office within the Department of Administration (DOA) and authorized the DOA Secretary to promulgate emergency rules. As a result of this action, **Title 148 Legislative Rule, Series 3 – State Owned Vehicles, was adopted, effective May 1, 2010.** The major changes in the law include:

   a. Prohibit the use of hand-held cell phones and text messaging;
   b. Make the operator of state vehicles personally responsible for payment of citations and fines;
   c. Eliminate the accident review committee and make agencies responsible for disciplinary actions against employees as a result of accidents;
   d. Make agencies responsible for monitoring their employees' driving records; and
   e. Remove the commuting value language contained in the old rules in order to clarify that all employees must abide by the IRS commuting value guidelines.

2. HB 4615; SB 644 - Authorizes political subdivisions the ability to establish risk pools to insure their workers' compensation risks – **passed March 12, 2010 and is in effect at time of passage.**

3. HB 4657; SB 666 - Designating the Insurance Commissioner with the responsibility to manage Workers' Compensation risks for state agencies. This legislation did not pass. As it now stands, state agencies and other governmental agencies, i.e., Boards of Education, County Commissions and Volunteer Fire Departments, can go out to the market for Workers Compensation coverage as they are not required to obtain Workers Compensation coverage from BrickStreet. BrickStreet still must provide coverage if requested until June 30, 2011.

E. BRIM Projects

1. Loss Control Recognition Program – program geared at rewarding insureds for practicing good risk management and preventing losses.

2. Business Continuity Plan (BCP) – The DOA COOP team members have started pre-planning for a Continuity of Operations Plan for The Governor's Office.

F. MISC.

1. STRIMA Executive Committee Meeting – 4/6-9/10 in Nashville, TN

2. Meeting on 4/23 with the Governor's staff members, Cabinet Secretary of Revenue, the Insurance Commissioner, and the DOA General Counsel regarding Workers' Compensation Coverage for State Employees.

3. The Board of Education Excess Liability Insurance Request for Proposal was finalized on 5/12/10. *Charleston Newspapers* published a notice in the 5/17 Legal Ads publicizing the RFP and directing interested parties to our website for information. Responses are due by June 14, 2010.

4. Aviation Insurance – coverage per occurrence increased from $1,000,000 to $10,000,000 provided through our aviation carrier, National Union.

5. Public Risk Insurance Management Association (PRIMA) Annual Conference scheduled for June 6-9, 2010 in Orlando, Florida. Steve and I will be attending.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

Attachment

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

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Chief Financial Officer's Report
May 25, 2010

A. P Card Report

- CD copies contain the supporting detail for P card purchases for the months of January, February and March 2010. These totals are:

January	$46,980.12
February	$49,471.94
March	$42,779.65

B. Interim Financials – 3/31/10

- BRIM's overall financial position thru March continued to improve with investments contributing $20.1 million to the current year earnings for the nine months ending 3/31/10. Operating income for the first nine months of FY'10 is $3.0 million vs. $3.9 million for the same period for FY'09.
- Claims Expense thru March reflects the actual claims payments made for the first nine months of the fiscal year as well as a $6.9 million overall decrease in the estimated outstanding claims reserves since June 30, 2009.

C. FY'11 Premiums

- The rates for FY'11 have been finalized for both the State and SB3 programs. Overall, the average FY '11 premium rates are down 10% vs. FY '10. While a small percentage of insureds may see an increase, most will see a decrease in their overall premium for FY'11.

D. AIG/Chartis Update

- American International Group Inc. (AIG) reported a first-quarter profit of $1.45 billion. This was a turnaround from last year's first-quarter loss of $4.35 billion. First-quarter continuing insurance operations reported net income of $2.22 billion, up from $908 million for the same period last year. The increase was the result of improvements in investments.
- Net premiums earned by Chartis and other AIG property and casualty businesses fell about 8 percent, or $631 million, to $7.64 billion. Income before net realized capital gains grew 24 percent, or $169 million, to $879 million.
- Proceeds from the pending sale of two of AIG's life insurance companies, American Assurance Company Ltd and American Life Insurance Company, will be used to pay down its loan obligations to the Federal Reserve Bank of New York that resulted from the aid the New York Fed provided to AIG during the 2008 financial crisis.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

		March 31	
		2010	2009
		(in thousands)	
ASSETS			
Short Term Assets			
Cash and Equivalents		$ 26,679	$ 25,151
Advance Deposit with Carrier/Trustee		179,326	183,861
Receivables - Net		983	611
Prepaid Insurance		1,564	1,534
Total Short Term Assets		208,552	211,157
Long Term Assets			
Investments		121,374	93,994
Total Long Term Assets		121,374	93,994
TOTAL ASSETS		329,926	305,151
LIABILITIES			
Short Term Liabilities			
Accounts payable		1,323	1,032
Claims Payable		207	297
OPEB Liability		-	35
Agents Commissions Payable		945	1,216
Unearned Revenue		7,474	8,043
Current Estimated Claim Reserve		42,204	51,597
Total Short Term Liabilities		52,153	62,220
Long Term Liabilities			
Compensated Absences		58	52
Estimated Noncurrent Claim Reserve		103,618	114,040
Total Long Term Liabilities		103,676	114,092
TOTAL LIABILITIES		155,829	176,312
Prior Year Net Assets		150,958	127,630
Current Year Earnings/Prior Year Earnings (Loss)		23,139	1,209
TOTAL NET ASSETS		174,097	128,839
TOTAL LIABILITIES AND RETAINED EARNINGS		$ 329,926	$ 305,151

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the nine months ending

	March 31	
	2010	**2009**
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 43,814	$ 47,195
Less - Excess Insurance	(4,692)	(4,602)
Total Operating Revenues	39,122	42,593
Operating Expenses		
Claims Expense	27,656	30,754
Property & MS Claims Expense	5,557	4,717
Personal Services	951	970
General & Administrative Expense	1,958	2,220
Total Operating Expenses	36,122	38,661
Operating Income	3,000	3,932
Nonoperating Revenues		
Court Fees	26	23
Investment Income	20,113	(2,746)
Total Nonoperating Revenues	20,139	(2,723)
Net Income	23,139	1,209

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the nine months ending March 31, 2010
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 21,278	$ 20,977	$ 1,559	$ -	$ 43,814
Less: Excess Insurance	$ (1,704)	$ (2,988)	$ -	$ -	$ (4,692)
Total Operating Revenues	$ 19,574	$ 17,989	$ 1,559	$ -	$ 39,122
Operating Expenses					
Claims Expense	18,559	9,058	39	-	27,656
Property & MS Claims Expense	2,680	2,350	527	-	5,557
Personal Services	462	456	33	-	951
General and Administrative Expense	588	1,356	12	2	1,958
Total Operating Expenses	22,289	13,220	611	2	36,122
Operating Income (Loss)	(2,715)	4,769	948	(2)	3,000
Nonoperating Revenues					
Interest Income	11,519	5,164	3,425	5	20,113
Court Fees	-	-	-	26	26
Total Nonoperating Revenue	11,519	5,164	3,425	31	20,139
Net Income	$ 8,804	$ 9,933	$ 4,373	$ 29	$ 23,139

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
March 31, 2010
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 6,404	$ 6,581	$ 8,407	$ 5,287	$ 26,679
Deposits Held by Carrier/Trustee	92,291	87,035	-	-	$ 179,326
Receivables - Net	578	33	372	-	$ 983
Prepaid Insurance	568	996	-	-	$ 1,564
Total Short Term Assets	99,841	94,645	8,779	5,287	208,552
Long Term Assets					
Investments	71,886	23,421	26,067	-	121,374
Total Long Term Assets	71,886	23,421	26,067	-	121,374
Total Assets	$ 171,727	$ 118,066	$ 34,846	$ 5,287	$ 329,926
Liabilities					
Short Term Liabilities					
Accounts payable	466	830	27	-	1,323
OPEB Liability	-	-	-	-	-
Claims Payable	52	148	7	-	207
Agents Commissions Payable	-	945	-	-	945
Unearned Revenue	-	6,769	705	-	7,474
Current Claim Reserve	24,026	17,394	784	-	42,204
Total Short Term Liabilities	24,544	26,086	1,523	-	52,153
Long Term Liabilities					
Compensated Absences	38	19	1	-	58
Claim Reserve IBNR	56,989	46,346	247	36	103,618
Total Long Term Liabilities	57,027	46,365	248	36	103,676
Total Liabilities	81,571	72,451	1,771	36	155,829
Prior Year Net Assets	81,352	35,682	28,702	5,222	150,958
Current Year Earnings	8,804	9,933	4,373	29	23,139
Total Net Assets	90,156	45,615	33,075	5,251	174,097
Total Liabilities and Retained Earnings (Deficiency)	$ 171,727	$ 118,066	$ 34,846	$ 5,287	$ 329,926

Loss Control Report to the Board
May 2010

1. We are pleased to report that we have now filled the two vacant Loss Control Specialist positions. Our new employees will report to work for the first day on June 16, 2010. We plan to introduce them to you at the next Board meeting.

2. On May 18, 2010 we sent out Loss Control Questionnaires to all state agencies. The deadline for their submission to BRIM is August 1, 2010.

3. More than fifty senior management officials were present for the March 4, 2010 risk management seminar that we hosted for county boards of education and for state colleges and universities. This was the first such seminar we've sponsored in quite a few years. We hope to be able to sponsor similar seminars geared toward these and other classes of insured.

4. We have begun the process of renewing our risk management service vendor contracts for the 2010-2011 fiscal year with Aon Global Risk Consulting and Chubb Group of Insurance Companies. This will be the second year for these contracts.

5. During the months of March and April, AON conducted 74 inspections and CHUBB conducted 332. The reports are being processed according to established procedures.

6. Since my last report, our loss control technical staff reports the following activity:

    6 Loss Control Visit
    These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

    8 Standards of Participation Visits
    These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

    3 Presentation Visits
    These are visits during which we provide active training and/or outreach to a group of individuals.

    1 Continuing Education Visit
    These are visits which are designed to provide the loss control specialists with education and training for professional development.

    5 Inspection Observation Visits
    These are visits during which we accompany a vendor inspector during scheduled inspections.

Loss Control Report to the Board
May 2010

289 Senate Bill #3 Standards of Participation evaluation have been completed since February 23, 2010.

Dated: 5-20-2010

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

AGENDA

BOARD MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

February 23, 2010

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes November 17, 2009
Chairman Lukens	Executive Session – WV Code §6-9A-4(b)(6)
Chairman Lukens	Return to Open Session
Charles E. Jones, Jr. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

February 23, 2010

BOARD MEMBERS:	John R. Lukens, Chairman Bruce Martin, Vice Chairman Martin J. Glasser, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Jerry Gladwell, Underwriting Manager Jeremy Wolfe, Loss Control Manager Chuck Mozingo, Assistant Claim Manager Melody Duke, Controller Charles “Blaine” Nelson, Deputy Underwriting Manager Jill Farrar-Brown, Loss Control Specialist Carl Baldwin, Loss Control Specialist Steve Fowler, BRIM Counsel Linda Dexter, Recording Secretary
INSURANCE COMMISSION REPRESENTATIVES:	Bill Kenny, Deputy Insurance Commissioner
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, Chartis Joanna Valleau, Chartis Harry “Skip” Morris, Wells Fargo
GUESTS:	Ed Phillips, WVU Health Sciences Center Michael J. Gansor, WVU Risk Management Beth Hammers, Marshall University SOM Brian Carrico, Marshall University Tracy Smith, Marshall University

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Lukens at 1:09 p.m. on Tuesday, February 23, 2010, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Martin moved the approval of the minutes of the November 17, 2009 Board Meeting. The motion was seconded by Mr. Glasser. There being no discussion, a vote was taken and the MOTION ADOPTED.

EXECUTIVE SESSION

Chairman Lukens stated that in accordance with West Virginia Code § 6-9A-4(b)(6), the BRIM Board would vote to go into Executive Session. A MOTION was made by Mr. Glasser and seconded by Mr. Martin to convene into Executive Session. There being no discussion, a vote was taken and the MOTION ADOPTED.

The meeting recessed at 1:10 p.m. and returned to open session at 1:32 p.m.

OPEN SESSION

Chairman Lukens stated that while the Board was meeting in executive session (that the purpose of the executive session was to) – it discussed a certain item and has delegated the responsibility for handling that item to counsel with specific instructions.

REPORTS

The monthly report of the Executive Director was received and filed, a copy of which is attached and made a part of the record. One of the major issues for discussion contained in Mr. Jones' report was the Consolidation of Information Technology

Personnel. He explained that although he usually didn't discuss personnel issues at Board meetings, he did want the Board to be aware of the consolidation effort and how it could affect BRIM. The Office of Technology (OT) is working toward consolidating all of the Information Technology (IT) people in state government. BRIM has an IT Manager on staff, John Fernatt, and the consolidation would require him to report to someone else other than the Executive Director.

Mr. Jones further stated that Mr. Fernatt does have other duties besides being the IT Manager here. He has also been a claim representative for the last five years. He is the liaison between BRIM and other agencies and the Department of Administration with regard to disaster recovery and continuity of operations. From that perspective, BRIM's loss of Mr. Fernatt on a permanent basis would be detrimental to the program. Therefore, Mr. Jones is requesting that the Board allow him to approach Secretary Ferguson with the recommendation that a reclassification of Mr. Fernatt's duties be made, which would be more in line with his overall (not strictly IT-related) duties at BRIM, as opposed to him going directly to OT and coming back to BRIM sporadically as an OT employee. Mr. Jones thereafter made a final appeal to the Board for their support of his position as Executive Director and for them to endorse his recommendation for reclassification of Mr. Fernatt's job duties.

Mr. Martin thereafter moved that the Executive Director request approval from the Secretary of the Department of Administration to reclassify the BRIM Information Technology Manager with a classification more befitting the duties performed at BRIM. Mr. Glasser seconded the motion. After a brief discussion, a vote was taken and the MOTION ADOPTED.

Mr. Jones continued with his report and subsequently closed by soliciting questions from the Board, to which there were none.

Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of September 30, 2009, the unaudited income statement for the three months ending September 30, 2009, and the line of business statements (Total State, Total SB3, Mine Subsidence and BRIM HB 601) for the same periods were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the August/September 2009 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the May, June and July 2009 billing. The acknowledgement form was retained by the Finance Department.

The Loss Control Report, presented by Jeremy Wolfe, Loss Control Manager, was thereafter received and filed, a copy of which is attached and made a part of the record.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:03 p.m.

____________________________________ _________________________
Board Chairman Date

Executive Director's Report

February 23, 2010

A. Significant Issues

1. Fraudulent Claim against the Office of the Auditor
2. Consolidation of Information Technology personnel
3. Renewal of Casualty Insurance Program with Chartis
4. Negotiated reduction of fees for management of Trust Account with Bank of New York
5. Upcoming quotation from General Star for Excess Liability for County Boards of Education
6. Upcoming quotation from Wells Fargo property insurance carrier
7. Appraising all state agency properties to maintain insurance to value
8. Project to appraise County Boards of Education properties for insurance to value

B. Marshall University/WVU Medical Malpractice Deductible Program

- As of February 11, 2010, Marshall has deposited $2,007,661.38 into the escrow account. The year-to-date cumulative interest totals $117,102.30. There have been 25 disbursements totaling $767,002.25 made during fiscal year 2010 thus far.

- As of January 31, 2010, a total of $5,984,188.82 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $117,478.74. There have been 76 disbursements totaling $847,921.74 made during fiscal year 2010 thus far.

C. Litigation

The February 2010 report from Chartis for the period ending January 31, 2010 reveals that in January, no cases were tried to verdict.

New lawsuits have increased 12.1% over year-to-date 2009; closed lawsuits have decreased 18%, and pending lawsuits have decreased 4.7%.

D. Proposed Legislation

1. HB 4033 - Authorizing the establishment of the Fleet Management Office within the Department of Administration; Authorizing the Secretary DOA to promulgate emergency rules to administer same.

   a. State employees routinely taking state vehicles home
   b. Absence of progressive discipline policy for employees responsible for at-fault accidents

2. HB 4611 - Abolishing Joint Liability ; establishing principle of comparative fault

3. HB 4615; SB 644 - Authorizing political subdivisions to establish risk pools to insure their workers' compensation risks

4. HB 4657; SB 666 - Designating the Insurance Commissioner to manage Workers' Compensation risks for state agencies

E. BRIM Projects

1. Loss Control – A risk management seminar will be held on March 4, 2010 at West Virginia State University. This seminar is designed to educate and inform the attendees of the causes and costs of property and casualty insurance claims, as well as what measures management can take to control insurance loss.

.

   Loss Control Recognition Program – program geared at rewarding insureds for practicing good risk management and preventing losses.

2. Business Continuity Plan (BCP) – This is an ongoing task. In December 2009, John Fernatt became certified in disaster recovery after completion of classes and an exam in Orlando, FL.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT
90 MACCORKLE AVENUE SW, Suite 203
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www.state.wv.us/brim

Joe Manchin III
Governor

Robert Ferguson, Jr.
Cabinet Secretary

Chief Financial Officer's Report
February 23, 2010

A. P Card Report

- CD copies contain the supporting detail for P card purchases for the months of November and December 2008 and January 2009. These totals are:

October	$55,351.86
November	$59,547.02
December	$50,541.57

B. Interim Financials – 12/31/09

- BRIM's overall financial position thru December shows fiscal year to date net income of $15.5 million, driven by less volatile markets resulting in improved investment earnings for the first six months. This compares to a net loss of $6.1 million for FY'09, with the loss last year being driven by the uncertainty in the financial markets last year.
- Premium Revenue thru December reflects the premiums earned for the first six months of FY'10.
- Claims Expense thru December reflects the actual claims payments made for the first six months of the fiscal year as well as a $6.2 million overall decrease in the estimated outstanding claims reserves since June 30, 2009.

C. AIG/Chartis Update

- On December 1, 2009 AIG reduced the debt it owed to the FRBNY by $25 billion in exchange for the FRBNY's acquisition of preferred equity interests in certain newly formed subsidiaries. The $25 billion debt reduction decreased AIG's outstanding principal balance under the FRBNY credit facility.
- AIG President and Chief Executive Officer Robert H. Benmosche announced, in February, 2010, the appointment of seven executives to key positions within AIG. This included the appointment of Peter D. Hancock, a former executive at J.P. Morgan, as AIG's Executive Vice President, Finance, Risk, and Investments. These announcements would indicate that the corporate restructuring continues for both Chartis, Inc. and its' parent holding company.
- Chartis, Inc. continues to work towards forging both a separate identity and operational independence from AIG.
- Financial results for the 4th quarter of 2009 for both AIG and Chartis have not yet been released.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	December 31 2009	December 31 2008
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 25,162	$ 16,699
Advance Deposit with Carrier/Trustee	176,172	183,008
Receivables - Net	1,453	4,595
Prepaid Insurance	3,128	3,068
Total Short Term Assets	205,915	207,370
Long Term Assets		
Investments	118,048	94,007
Total Long Term Assets	118,048	94,007
TOTAL ASSETS	323,963	301,377
LIABILITIES		
Short Term Liabilities		
Accounts payable	2,150	5,219
Claims Payable	274	577
OPEB Liability	-	35
Agents Commissions Payable	633	811
Unearned Revenue	7,881	8,276
Current Estimated Claim Reserve	41,905	48,212
Total Short Term Liabilities	52,843	63,130
Long Term Liabilities		
Compensated Absences	58	52
Estimated Noncurrent Claim Reserve	104,624	116,668
Total Long Term Liabilities	104,682	116,720
TOTAL LIABILITIES	157,525	179,850
Prior Year Net Assets	150,958	127,630
Current Year Earnings/Prior Year Earnings (Loss)	15,480	(6,103)
TOTAL NET ASSETS	166,438	121,527
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 323,963	$ 301,377

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the six months ending

	December 31	
	2009	**2008**
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 29,373	$ 31,704
Less - Excess Insurance	(3,128)	(3,068)
Total Operating Revenues	26,245	28,636
Operating Expenses		
Claims Expense	19,252	24,495
Property & MS Claims Expense	4,500	3,823
Personal Services	641	654
General & Administrative Expense	1,343	1,628
Total Operating Expenses	25,736	30,600
Operating Income (Loss)	509	(1,964)
Nonoperating Revenues		
Court Fees	18	16
Investment Income	14,953	(4,155)
Total Nonoperating Revenues	14,971	(4,139)
Net Income (Loss)	15,480	(6,103)

West Virginia Board of Risk and Insurance Managemen
UNAUDITED BALANCE SHEET
December 31, 2009
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 5,093	$ 6,660	$ 8,131	$ 5,278	$ 25,162
Deposits Held by Carrier/Trustee	90,501	85,671	-	-	$ 176,172
Receivables - Net	775	306	372	-	$ 1,453
Prepaid Insurance	1,136	1,992	-	-	$ 3,128
Total Short Term Assets	97,505	94,629	8,503	5,278	205,915
Long Term Assets					
Investments	69,916	22,779	25,353	-	118,048
Total Long Term Assets	69,916	22,779	25,353	-	118,048
Total Assets	$ 167,421	$ 117,408	$ 33,856	$ 5,278	$ 323,963
Liabilities					
Short Term Liabilities					
Accounts payable	704	1,425	21	-	2,150
OPEB Liability	-	-	-	-	-
Claims Payable	86	115	73	-	274
Agents Commissions Payable	-	633	-	-	633
Unearned Revenue	-	7,176	705	-	7,881
Current Claim Reserve	22,970	18,203	732	-	41,905
Total Short Term Liabilities	23,760	27,552	1,531	-	52,843
Long Term Liabilities					
Compensated Absences	38	19	1	-	58
Claim Reserve IBNR	55,983	48,374	231	36	104,624
Total Long Term Liabilities	56,021	48,393	232	36	104,682
Total Liabilities	79,781	75,945	1,763	36	157,525
Prior Year Net Assets	81,352	35,682	28,702	5,222	150,958
Current Year Earnings	6,288	5,781	3,391	20	15,480
Total Net Assets	87,640	41,463	32,093	5,242	166,438
Total Liabilities and Retained Earnings (Deficiency)	$ 167,421	$ 117,408	$ 33,856	$ 5,278	$ 323,963

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the six months ending December 31, 2009
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 14,323	$ 13,958	$ 1,092	$ -	$ 29,373
Less: Excess Insurance	$ (1,136)	$ (1,992)	$ -	$ -	$ (3,128)
Total Operating Revenues	$ 13,187	$ 11,966	$ 1,092	$ -	$ 26,245
Operating Expenses					
Claims Expense	12,544	6,737	(29)	-	19,252
Property & MS Claims Expense	2,190	1,897	413	-	4,500
Personal Services	364	259	18	-	641
General and Administrative Expense	434	900	7	2	1,343
Total Operating Expenses	15,532	9,793	409	2	25,736
Operating Income (Loss)	(2,345)	2,173	683	(2)	509
Nonoperating Revenues					
Interest Income	8,633	3,608	2,708	4	14,953
Court Fees	-	-	-	18	18
Total Nonoperating Revenue	8,633	3,608	2,708	22	14,971
Net Income (Loss)	$ 6,288	$ 5,781	$ 3,391	$ 20	$ 15,480

Loss Control Report to the Board
February 2010

1. The evaluation process for Senate Bill #3 loss control questionnaires should be completed during the month of March. This year's participation level is the highest since the inception of the program in 2004.

2. We have received approval to fill at least one of the vacant loss control specialist positions. We've published one advertisement in the Charleston Newspapers already and will publish one more. We've also posted the position with the Division of Personnel. We are currently receiving and reviewing resumes and hope to begin interviewing after the March 10 resume submission deadline.

3. At the request of DHHR, our Loss Control Department recently worked to address problems at the John Manchin, Sr. Health Care Center in Fairmont. Loss Control Manager Jeremy Wolfe conducted a site assessment and arranged for Rudick Forensic Engineering to inspect the Center's delivery ramp. A report from Rudick is forthcoming to assist DHHR in addressing the structural deficiencies associated with the amp.

4. On March 4, 2010, we will be hosting a risk management seminar for our insured County Boards of Education and for Colleges and Universities. The seminar is designed to educate and inform attendees on risk management strategies to assist them in managing their risks.

5. We are working on a loss control recognition program that we hope to unveil this spring. The program will recognize those insured that are performing above and beyond our expectations with regard to our various safety and loss control initiatives.

6. During the months of November, December and January, AON conducted 189 inspections and CHUBB conducted 696. The reports are being processed according to established procedures.

7. Since my last report, our Loss Control technical staff reports the following activity:

   5 Loss Control Visit
   These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

   11 Standards of Participation Visits
   These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

Loss Control Report to the Board
February 2010

1 Presentation Visit

These are visits during which we provide active training and/or outreach to a group of individuals.

231 SB#3 Standards of Participation evaluations have been completed since January 11, 2010. Presently, we have another **484** evaluations yet to review (and may receive more!)

[NOTE: Since the beginning of the year, our loss control staff has been evaluating the SB#3 questionnaires and hasn't been able to travel much (not that the weather has been very conducive to travel). However, the coming months should prove to be very busy for the Department.]

Dated: 2/19/2010

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

AGENDA

BOARD MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND
INSURANCE MANAGEMENT

November 17, 2009

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes September 9, 2009
Charles E. Jones, Jr. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	June 30, 2009 Actuarial Report from AON June 30, 2009 Audited Financial Report from Ernst & Young, LLP Financial Report P-Card Report
Jeremy Wolfe Loss Control Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES OF THE BUSINESS MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

November 17, 2009

BOARD MEMBERS:	John R. Lukens, Chairman Bruce Martin, Vice Chairman Sherry Cunningham, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Melody Duke, Controller Chuck Mozingo, Assistant Claim Manager Jerry Gladwell, Underwriting Manager Jeremy Wolfe, Loss Control Manager Charles "Blaine" Nelson, Deputy Underwriting Manager Steve Fowler, BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, Chartis Joanna Valleau, Chartis Harry "Skip" Morris, Wells Fargo
GUESTS:	Jo Ellen Cockley, AON Susan Wheeler, Ernst & Young Robert Johnson, Ernst & Young Ed Phillips, WVU Health Sciences Center Michael J. Gansor, WVU Brian Carrico, Marshall University Tom Sauvageot, WV Investment Management Board

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Lukens at 1:02 p.m. on Tuesday, November 17, 2009, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the September 9, 2009 Board Meeting. The motion was seconded by Mr. Martin. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

The monthly report of the Executive Director was received and filed, a copy of which is attached and made a part of the record. During his presentation, Mr. Jones noted that West Virginia was the **only** state government recognized by the National Safety Council. BRIM was recognized in the "*Best Performance*" category for its online Defensive Driving Course.

Mr. Schumacher then yielded the floor to Mrs. Jo Ellen Cockley of AON Risk Consultants, our actuary, who presented the annual actuarial review, which information was extracted from the Risk Funding Study as of June 30, 2009, previously distributed to the Board Members and thereafter received and filed.

Ms. Susan Wheeler and Mr. Rob Johnson of Ernst & Young, LLP, financial auditors for the West Virginia Board of Risk and Insurance Management, thereafter presented the annual audit results. The report entitled "West Virginia Board of Risk and Insurance Management, 2009 Audit Results and Communications" was distributed to the Board Members, and was thereafter received and filed.

During her presentation, Ms. Wheeler noted that BRIM continues to receive the Government Finance Officers Association (GFOA) Certificate of Financial Achievement.

There being no questions, Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of September 30, 2009, the unaudited income statement for the three months ending September 30, 2009, and the line of business statements (Total State, Total SB3, Mine Subsidence and BRIM HB 601) for the same periods were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the August/September 2009 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the May, June and July 2009 billing. The acknowledgement form was retained by the Finance Department.

The Loss Control Report, presented by Jeremy Wolfe, Loss Control Manager, was thereafter received and filed, a copy of which is attached and made a part of the record.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:03 p.m.

____________________________ ____________________

Board Chairman Date

Executive Director’s Report

November 17, 2009

A. Marshall University/WVU Medical Malpractice Deductible Program

- As of October 31, 2009, Marshall has deposited $1,507,661.38 into the escrow account. The year-to-date cumulative interest totals $116,678.78. There have been eight disbursements totaling $134,516.14 made during fiscal year 2010 thus far.

- As of October 31, 2009, a total of $5,648,841.59 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $116,531.05. There have been 30 disbursements totaling $511,714.94 made during fiscal year 2010 thus far.

B. Litigation

The October 2009 report from Chartis for the period ending September 30, 2009 reveals that in September, no cases were tried to verdict, and YTD, ten cases have been tried to a verdict, with six defense verdicts and four plaintiff verdicts.

New lawsuits have increased 11.4% over year-to-date 2008; closed lawsuits have increased 12.6%, and pending lawsuits have decreased 4.5%.

C. Patient Injury Compensation Fund (PICF)

In a recent decision, the committee ruled to award the family of Michael Sizemore a settlement of $900,000.00 as compensation for birth trauma suffered at Cabell Huntington Hospital. The three physicians involved in this case are faculty members at Marshall University. This is the initial indemnity payment from the PICF since its inception.

D. Interim Discussion Issues

a. This past spring, the State Auditor's Office discovered that some-one had diverted $2 million meant for companies that had state contracts. A North Carolina woman was later arrested in connection with the incident. She and/or accomplices allegedly sent fraudulent documents to the auditor's office and diverted state funds to Kenya.

As a result, the auditor's office plans to hire a database firm to help verify the identities of all companies that do business in West Virginia. The state Purchasing Division has been asked to acquire a sole-source contract with Dun & Bradstreet of Chicago, who will help to validate the identities of the companies doing business with the state that are requesting electronic payment.

First-party claims have been submitted by Office of the Insurance Commissioner (OIC) and the Department of Health and Human Resources (DHHR) totaling approximately $1.4 million collectively. Approximately $500,000 of the diverted funds were recovered by the WV State Treasurer's Office.

b. As a result of a legislative audit conducted earlier in the year, there have been allegations of abuses of state employees using state vehicles for community and other personal use.

Because of the magnitude of these allegations, Governor Manchin has impaneled a fleet task force to study the problem and find a solution(s). The task force will hold ten meetings during the months of November/December 2009, and make recommendations to The Governor.

The Governor's Office has directed that a form entitled "State-Owned Vehicle Log" be submitted for approval to the Travel Management Office by the head of each agency, department, board, commission or spending unit. Once approved by the Travel Management Office, the form will be given to the operator of each state-owned vehicle for business use and commuting. Completed forms will be reported in accordance with established rules or policy.

E. BRIM Projects

1. On October 24, 2009, Jeremy Wolfe, Loss Control Manager, attended the National Safety Council's 2009 Congress and Exposition in Orlando, FL. At the conference, BRIM was recognized in the "*Best Performance"* category for its online Defensive Driving Course.

2. Business Continuity Plan (BCP) – This is an ongoing task. Recently, BRIM and CPRB executed a Memorandum of Understanding to establish temporary alternate work sites in the event that current BRIM or CPRB facilities become unavailable.

3. Compilation of "Best Practices" Initiatives

   This process helps to document awareness of risk and setting well-defined approaches to monitor and manage risk. All BRIM departments are taking part in this endeavor.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

90 MACCORKLE AVENUE SW, Suite 203
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Joe Manchin III
Governor

Robert Ferguson, Jr.
Cabinet Secretary

Chief Financial Officer's Report
November 17, 2009

A. Actuarial Risk Funding Study

- The Risk Funding Study as of June 30, 2009 has been completed.

B. Audit Results and Communications

- The audit of the annual financial statements for FY'09 has been completed.
- Total reserves reflect the actuarial estimates as of June 30, 2009. The reserves are down $9.5 million vs. FY'08. The decline reflects risk funding study model refinements, primarily in relation to claims development trends, that impacted reserve estimates within the State and SB3 programs.
- Income reported for the fiscal year is $23.3 million vs. $29.9 million for FY'08. Most of the current year's income is derived from the $19.3 million decrease in the prior years' estimated reserves that were recorded in FY'09.

C. P Card Report

- CD copies contain the supporting detail for P card purchases for the months of August and September, 2009. These totals are:

August	$49,283.82
September	$40,212.08

D. Interim Financials – 9/30/09

- BRIM's overall financial position improved for the first quarter of FY'10 due to $12.3 million in investment earnings. Investment Income for the first three months of this year has improved dramatically versus a year ago when the financial market meltdown resulted in investment losses of $6.5 million for the same period
- Premium Revenue thru September reflects the premiums earned for the first three months of FY'09.
- Claims Expense thru September reflects the actual claims payments made for the first quarter as well as an increase in estimated outstanding claims reserves.

E. AIG/Chartis Update

- On November 6, 2009 AIG announced 3rd quarter results, posting a net income of $455 million vs. a $24.5 billion net loss for the same quarter a year ago.
- Chartis, Inc. continues to move closer towards separating its business form AIG as it will prepare separate financial statements for the year and seek its own credit rating.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	September 30	
	2009	**2008**
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 27,026	$ 24,012
Advance Deposit with Carrier/Trustee	179,951	168,167
Receivables - Net	1,254	1,401
Prepaid Insurance	2,949	2,947
Total Short Term Assets	211,180	196,527
Long Term Assets		
Investments	114,938	100,673
Total Long Term Assets	114,938	100,673
TOTAL ASSETS	326,118	297,200
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,840	1,394
Claims Payable	87	396
OPEB Liability	114	35
Agents Commissions Payable	323	2,027
Unearned Revenue	7,428	8,300
Current Estimated Claim Reserve	49,402	51,378
Total Short Term Liabilities	59,194	63,530
Long Term Liabilities		
Compensated Absences	58	52
Estimated Noncurrent Claim Reserve	104,725	114,682
Total Long Term Liabilities	104,783	114,734
TOTAL LIABILITIES	163,977	178,264
Prior Year Net Assets	150,958	127,630
Current Year Earnings	11,183	(8,694)
TOTAL NET ASSETS	162,141	118,936
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 326,118	$ 297,200

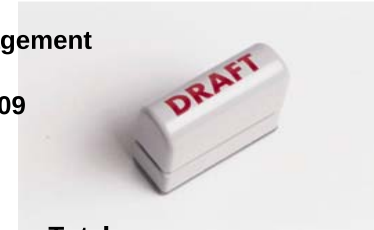
West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the three months ending

	September 30 2009	September 30 2008
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 14,761	$ 16,176
Less - Excess Insurance	(1,564)	(1,535)
Total Operating Revenues	13,197	14,641
Operating Expenses		
Claims Expense	11,427	14,274
Property & MS Claims Expense	1,924	1,603
Personal Services	331	329
General & Administrative Expense	656	654
Total Operating Expenses	14,338	16,860
Operating Income	(1,141)	(2,219)
Nonoperating Revenues		
Court Fees	10	9
Investment Income	12,314	(6,484)
Total Nonoperating Revenues	12,324	(6,475)
Net Income	11,183	(8,694)

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
September 30, 2009
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 6,450	$ 7,459	$ 7,847	$ 5,270	$ 27,026
Deposits Held by Carrier/Trustee	92,653	87,298	-	-	$ 179,951
Receivables - Net	667	215	372	-	$ 1,254
Prepaid Insurance	1,022	1,927	-	-	$ 2,949
Total Short Term Assets	100,792	96,899	8,219	5,270	211,180
Long Term Assets					
Investments	68,074	22,179	24,685	-	114,938
Total Long Term Assets	68,074	22,179	24,685	-	114,938
Total Assets	$ 168,866	$ 119,078	$ 32,904	$ 5,270	$ 326,118
Liabilities					
Short Term Liabilities					
Accounts payable	451	1,343	46	-	1,840
OPEB Liability	43	41	3	-	87
Claims Payable	2	37	75	-	114
Agents Commissions Payable	-	323	-	-	323
Unearned Revenue	-	6,723	705	-	7,428
Current Claim Reserve	26,365	22,329	708	-	49,402
Total Short Term Liabilities	26,861	30,796	1,537	-	59,194
Long Term Liabilities					
Compensated Absences	38	19	1	-	58
Claim Reserve IBNR	55,641	48,824	224	36	104,725
Total Long Term Liabilities	55,679	48,843	225	36	104,783
Total Liabilities	82,540	79,639	1,762	36	163,977
Prior Year Net Assets	81,352	35,682	28,702	5,222	150,958
Current Year Earnings	4,974	3,757	2,440	12	11,183
Total Net Assets	86,326	39,439	31,142	5,234	162,141
Total Liabilities and Retained Earnings (Deficiency)	$ 168,866	$ 119,078	$ 32,904	$ 5,270	$ 326,118

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the three months ending September 30, 2009
(in thousands)



	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 7,293	$ 6,946	$ 522	$ -	$ 14,761
Less: Excess Insurance	$ (568)	$ (996)	$ -	$ -	$ (1,564)
Total Operating Revenues	$ 6,725	$ 5,950	$ 522	$ -	$ 13,197
Operating Expenses					
Claims Expense	7,999	3,488	(60)	-	11,427
Property & MS Claims Expense	481	1,281	162	-	1,924
Personal Services	166	155	10	-	331
General and Administrative Expense	134	514	8	-	656
Total Operating Expenses	8,780	5,438	120	-	14,338
Operating Income (Loss)	(2,055)	512	402	-	(1,141)
Nonoperating Revenues					
Interest Income	7,029	3,245	2,038	2	12,314
Court Fees	-	-	-	10	10
Total Nonoperating Revenue	7,029	3,245	2,038	12	12,324
Net Income (Loss)	$ 4,974	$ 3,757	$ 2,440	$ 12	$ 11,183

Loss Control Report to the Board
November 2009

1. During month of October, we sent out loss control questionnaires to our Senate Bill #3 insured. The completed questionnaires and supporting documentation are due to BRIM on January 1, 2009.

2. BRIM and Chubb sponsored two boiler safety and operational seminars on November 12th and the 13th. The first was held at West Virginia State University and the second was held at the Days Inn in Flatwoods. Approximately 100 individuals participated in the seminars.

3. Next spring we will be hosting a risk management seminar for our insured County Boards of Education as well as our Colleges and Universities. The seminars will be designed to help our insured develop risk management strategies that will reduce the frequency and severity of loss.

4. We have begun the process of developing a reward/recognition program for those insured that exceed our expectations with regard to BRIM's various safety and loss control initiatives. We hope to roll-out this program during the spring and summer of 2010.

5. During the months of September and October Aon conducted 136 inspections and CHUBB conducted 532. The reports are being processed according to established procedures.

6. Unfortunately, we have yet to receive a response to our request to fill the technical vacancies which we currently have in the department. As a result of these vacancies, we have had to adjust our visit scheduling criteria and we are necessarily making fewer visits.

7. Since my last report, our loss control technical staff reports the following activity:

    4 Loss Control Visits

    These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

    10 Standards of Participation Visits

    These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

    2 Presentation Visits

    These are visits during which we provide active training and/or Outreach to a group of individuals.

3 Continuing Education Visits

These are visits which are designed to provide the loss control specialists with education and training for professional development.

Dated: 11-13-2009

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

State of West Virginia
Board of Risk and Insurance Management

Risk Funding Study as of June 30, 2009

Presented November 17, 2009

AON GLOBAL

Risk Funding Study Refinements

- Developed separate loss reporting and payment patterns for State Spending Units and Senate Bill #3 Entities to better detect and reflect changes in the underlying experience.
  - General Liability
  - Automobile
- Introduced the Frequency – Severity Method in Senate Bill #3 General Liability Method to be more responsive to improving frequency and changing exposure mix.

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Automobile

- State Spending Units report and pay loss faster than Senate Bill #3 Entities
- All else being equal, the faster development patterns result in lower ultimate loss estimates for SSU Auto.

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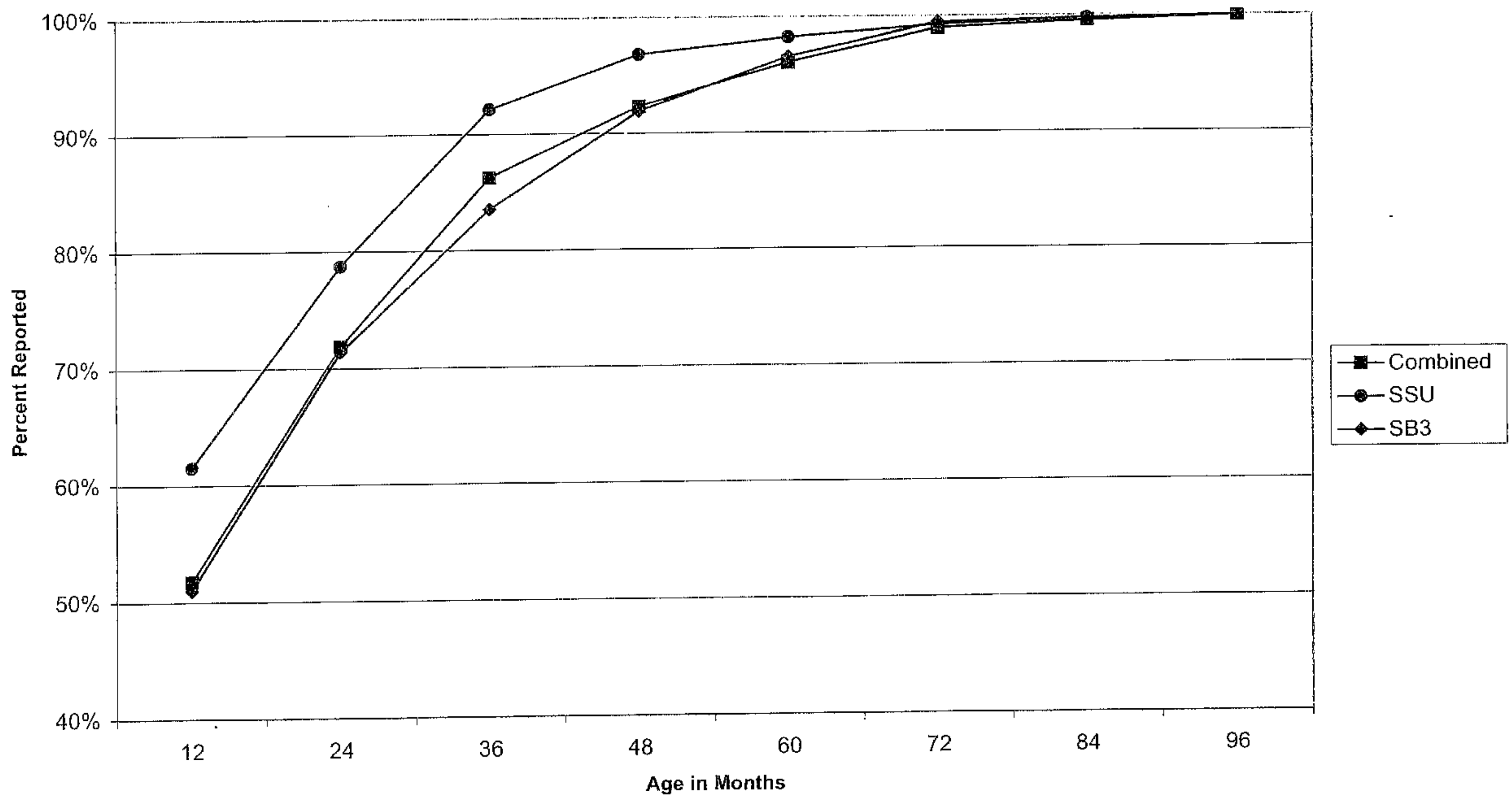
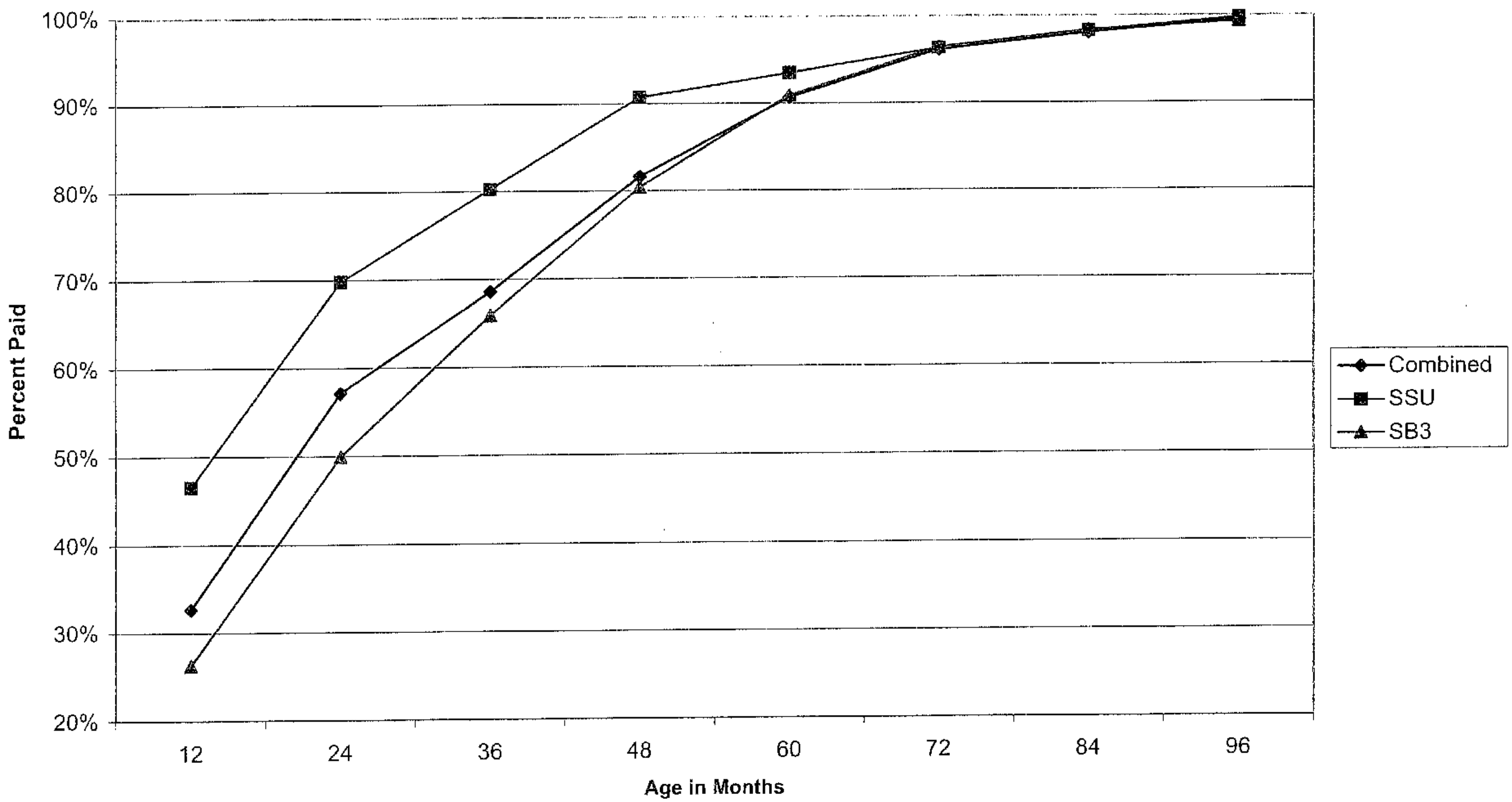
WV Board of Risk and Insurance Management
Automobile - Reporting Patterns
as of June 30, 2009



WV Board of Risk and Insurance Management
Automobile - Payment Patterns
as of June 30, 2009

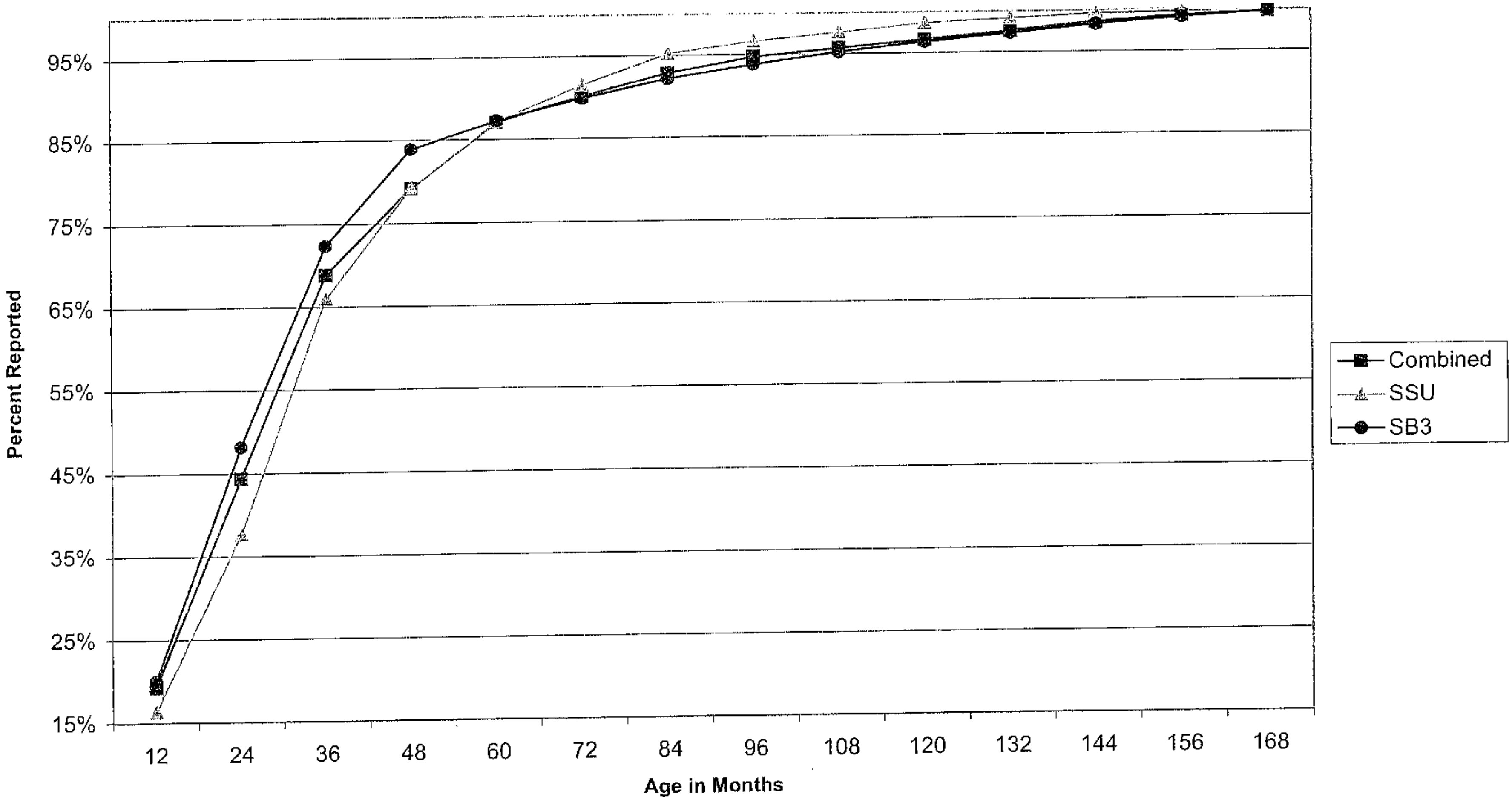


General Liability

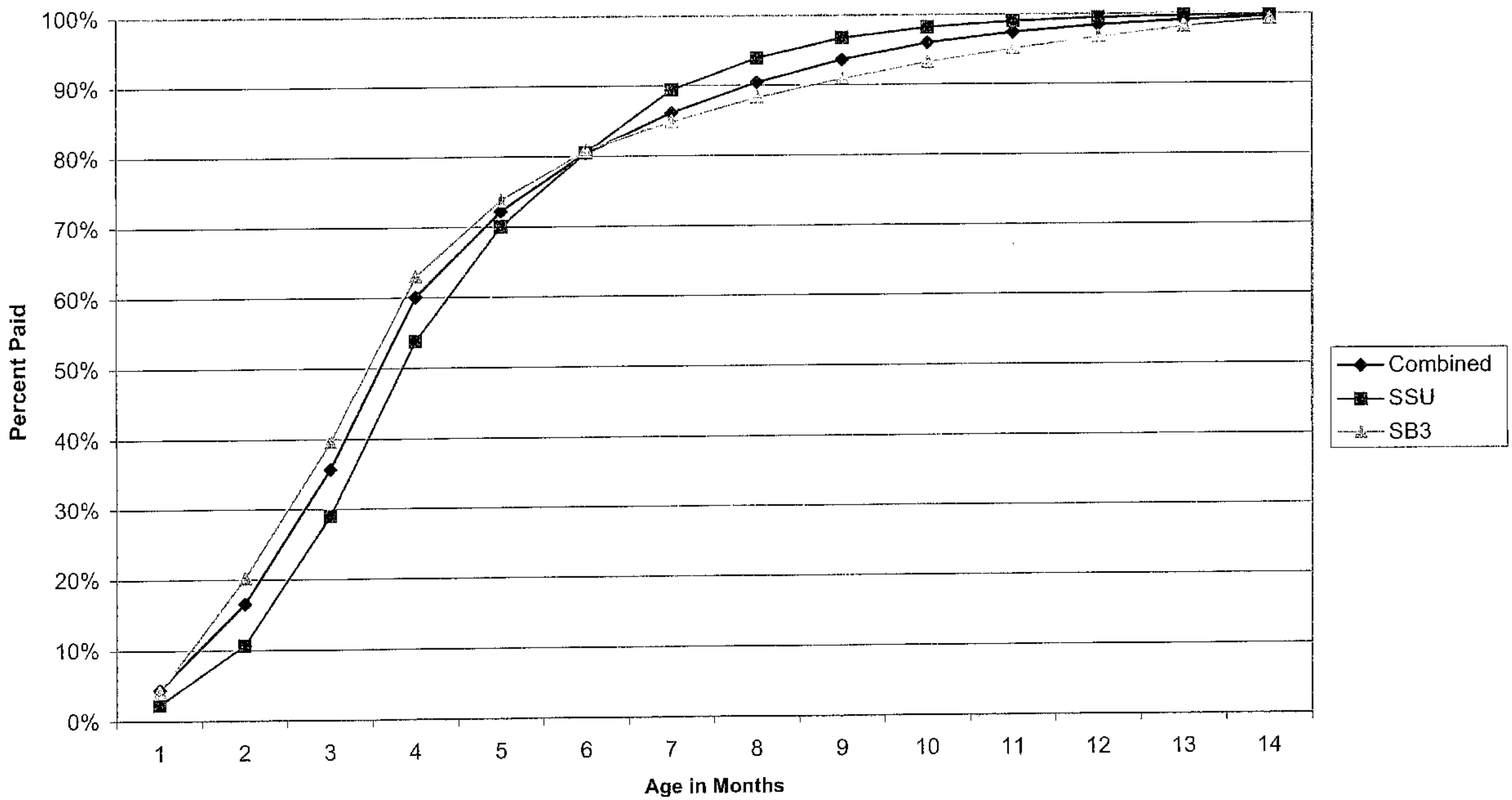
- Senate Bill #3 Entities report and pay loss faster than State Spending Units.
- All else being equal, the faster development patterns result in lower ultimate loss estimates for SB3 GL.
- The Frequency – Severity method gives more recognition to the recent improvement in SB3 GL claim frequency.
- SB3 GL had favorable loss experience between 6/30/2008 and 6/30/2009.
- Result: a significant reduction in SB3 ultimate loss estimates.

AON GLOBAL

WV Board of Risk and Insurance Management
General Liability - Reporting Patterns
as of June 30, 2009



WV Board of Risk and Insurance Management
General Liability - Payment Patterns
as of June 30, 2009



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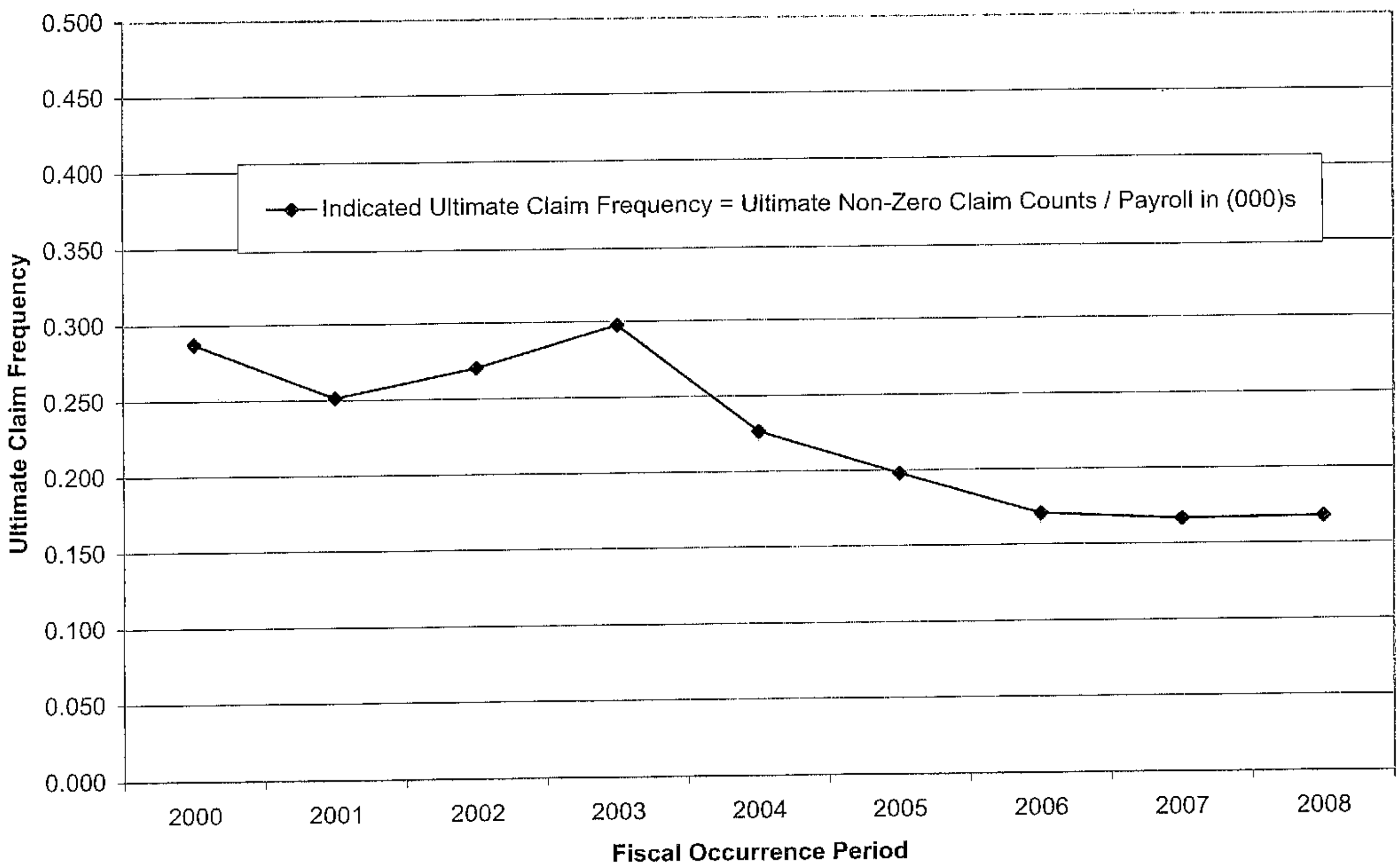
WV Board of Risk and Insurance Management
General Liability - Senate Bill #3 Claim Frequency
as of June 30, 2009



General Liability

- Senate Bill #3 Entities had favorable loss emergence between 6/30/2008 and 6/30/2009 as compared to the amount of reported incurred loss development in prior years.

BRIM SB3 GENERAL LIABILITY CALENDAR YEAR REPORTED LOSS

7/1/08-09	7/1/07-08	7/1/06-07	7/1/05-06	7/1/04-05	7/1/03-04	7/1/02-03
6,801,280	14,069,046	18,115,098	12,070,669	16,681,818	15,753,327	12,275,662

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Medical Malpractice

- State Spending Units had a small overall reserve decrease between 6/30/2008 and 6/30/2009.
- SSU FY04/05 and subsequent ultimate loss estimates increased since 6/30/2008.
- State Spending Units claim frequency declined until FY02/03 and then has slowly increased.
- Senate Bill #3 had a reserve increase due to one claim alleging misdiagnosis. As of September 30th, the claim was reserved for $385,000.

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Other Exposures

- Property SSU FY08/09 includes $1.8MM in case reserves related to two internet theft claims.
- Mine Subsidence continues to run at a favorable loss ratio (average = 34% over the past 8 years).
- The non-novated portion of the HB 601 program had no open claims as of June 30, 2009. A small IBNR provision for late reported (tail) claims remains.
- One claim was made to and denied by the Patient Injury Compensation Fund. No reserve is needed as of June 30, 2009 based on the "claims filed" nature of the PICF.

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Reserve Comparison

- Overall, unpaid loss estimates decreased $9.4MM or 6% between June 30, 2008 and June 30, 2009
- Key Drivers:
  - SB3 General Liability and Auto decreased $16.7MM
  - SSU General Liability increased $3.3MM
  - Property increased $3.3MM
- Unpaid loss estimates decreased another $1.4MM or 1% between June 30, 2009 and September 30, 2009.

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Board of Risk and Insurance Management
State of West Virginia

Comparison of Retained Unpaid Loss & ALAE
6/30/2009 vs. 6/30/2008

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
								Change from 6/30/2008 to 06/30/2009 in Retained Unpaid Loss	
Line of Business	Entity	Retained Case Reserves at 6/30/2009	Retained IBNR at 6/30/2009	Retained Unpaid at 6/30/2009	Retained Case Reserves at 6/30/2008	Retained IBNR at 6/30/2008	Retained Unpaid at 6/30/2008	Dollar Change	Percent Change
Automobile Liability	SSU	5,173,432	4,046,218	9,219,650	3,677,001	5,147,517	8,824,518	395,132	4.5%
Automobile Liability	SB3	4,987,870	7,842,614	12,830,484	5,944,654	8,709,489	14,654,144	(1,823,660)	-12.4%
General Liability	SSU	19,338,828	31,818,537	51,157,365	18,948,814	28,873,061	47,821,875	3,335,491	7.0%
General Liability	SB3	16,724,673	37,007,034	53,731,708	23,808,992	44,709,086	68,518,078	(14,786,370)	-21.6%
Property	SSU	2,536,755	614,619	3,151,374	894,255	113,146	1,007,401	2,143,972	212.8%
Property	SB3	1,869,102	775,203	2,644,305	1,062,101	375,051	1,437,152	1,207,153	84.0%
Medical Malpractice	SSU	5,657,721	9,968,046	15,625,767	5,423,485	10,867,074	16,290,559	(664,792)	-4.1%
Medical Malpractice	SB3	767,584	1,073,750	1,841,334	85,000	1,216,194	1,301,194	540,141	41.5%
Mine Subsidence		410,000	526,134	936,134	325,000	277,617	602,617	333,517	55.3%
HB601 Medical Malpractice		-	35,834	35,834	115,998	18,081	134,079	(98,244)	-73.3%
Total		57,465,965	93,707,990	151,173,955	60,285,300	100,306,314	160,591,614	(9,417,660)	-5.9%

AON GLOBAL

Board of Risk and Insurance Management
State of West Virginia

Comparison of Retained Unpaid Loss & ALAE

9/30/2009 vs. 6/30/2009

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
								Change from 6/30/2009 to 09/30/2009 in Retained Unpaid Loss	
Line of Business	Entity	Retained Case Reserves at 9/30/2009	Retained IBNR at 9/30/2009	Retained Unpaid at 9/30/2009	Retained Case Reserves at 6/30/2009	Retained IBNR at 6/30/2009	Retained Unpaid at 6/30/2009	Dollar Change	Percent Change
Automobile Liability	SSU	5,059,198	3,439,970	8,499,168	5,173,432	4,046,218	9,219,650	(720,482)	-7.8%
Automobile Liability	SB3	4,527,944	8,442,770	12,970,714	4,987,870	7,842,614	12,830,484	140,231	1.1%
General Liability	SSU	19,679,158	33,558,083	53,237,241	19,338,828	31,818,537	51,157,365	2,079,875	4.1%
General Liability	SB3	17,755,805	35,306,921	53,062,727	16,724,673	37,007,034	53,731,708	(668,981)	-1.2%
Property	SSU	3,076,755	621,953	3,698,708	2,536,755	614,619	3,151,374	547,334	17.4%
Property	SB3	1,717,828	852,880	2,570,708	1,869,102	775,203	2,644,305	(73,597)	-2.8%
Medical Malpractice	SSU	5,613,352	10,145,526	15,758,878	5,657,721	9,968,046	15,625,767	133,112	0.9%
Medical Malpractice	SB3	667,645	1,176,478	1,844,123	767,584	1,073,750	1,841,334	2,789	0.2%
Mine Subsidence		300,000	579,257	879,257	410,000	526,134	936,134	(56,877)	-6.1%
HB601 Medical Malpractice		-	35,834	35,834	-	35,834	35,834	-	0.0%
Total		58,397,685	94,159,673	152,557,359	57,465,965	93,707,990	151,173,955	1,383,404	0.9%

FY09/10 Loss Forecasts

- The FY09/10 Loss Forecasts between the June 30, 2008 Report and June 30, 2009 Report basically mirrored the changes in the unpaid loss estimates:
  - SB3 General Liability decreased 27%
  - SSU General Liability increased 17%
  - SSU Medical Malpractice did not change
  - Automobile decreased 4-5%
- The SB3 General Liability decrease is the result of:
  - Favorable loss experience
  - Refining the loss reporting and payment patterns
- The interest rate for discounting remains at 4%.

AON GLOBAL

Aon Benchmarks

Aon's 2009 Hospital Professional Liability and Physician Liability Benchmark Analysis

Published October 2009

AON GLOBAL

Medical Malpractice Benchmarks

- Aon's 2009 Hospital Professional Liability and Physician Liability Benchmark Analysis was released in October.
- Aon produces this report annually in a conjunction with ASHRM (American Society for Healthcare Risk Management)

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2009 Hospital Benchmark Key Findings

- After seven consecutive years of decreasing frequency, the frequency of HPL claims is increasing.
- Claim severity continues to increase at a consistent, 4% annual rate
- For the upcoming 2010 accident year, we project that hospitals will experience an annual loss cost of $3,170 per occupied bed equivalent.
- One out of every four claims and 24% of total hospital professional liability costs are associated with five specific hospital acquired conditions.
- Frequency, severity, and loss cost benchmark statistics vary significantly by state.

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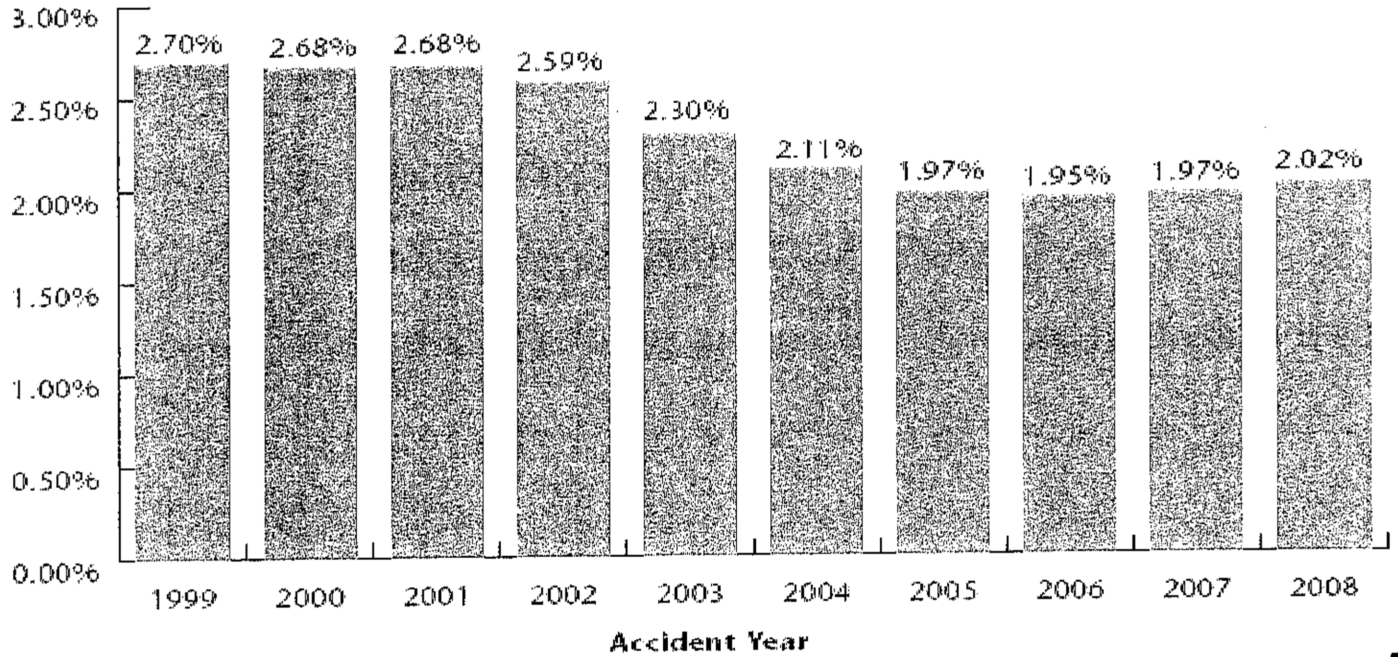
Overall Hospital Claim Frequency

- From 2002 to 2005, HPL claim frequency decreased by approximately 24%. Recent years show a flattening of the trend and then an increasing trend in 2007 and 2008.

Hospital Professional Liability Benchmark
Overall Frequency per Bed



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What is Driving the Frequency Increase

- The actuarial analysis indicates more claims arising from occurrences in 2007 and 2008. This is supported by the fact that hospitals recognized an increasing number of claims reported starting in 2007 Q4.
- Three factors may be contributing to the increase in claim frequency:
  - The U.S. Economic Recession
  - CMS Rule Changes regarding “Never Events”
  - Changes in media coverage and public sympathy toward healthcare providers

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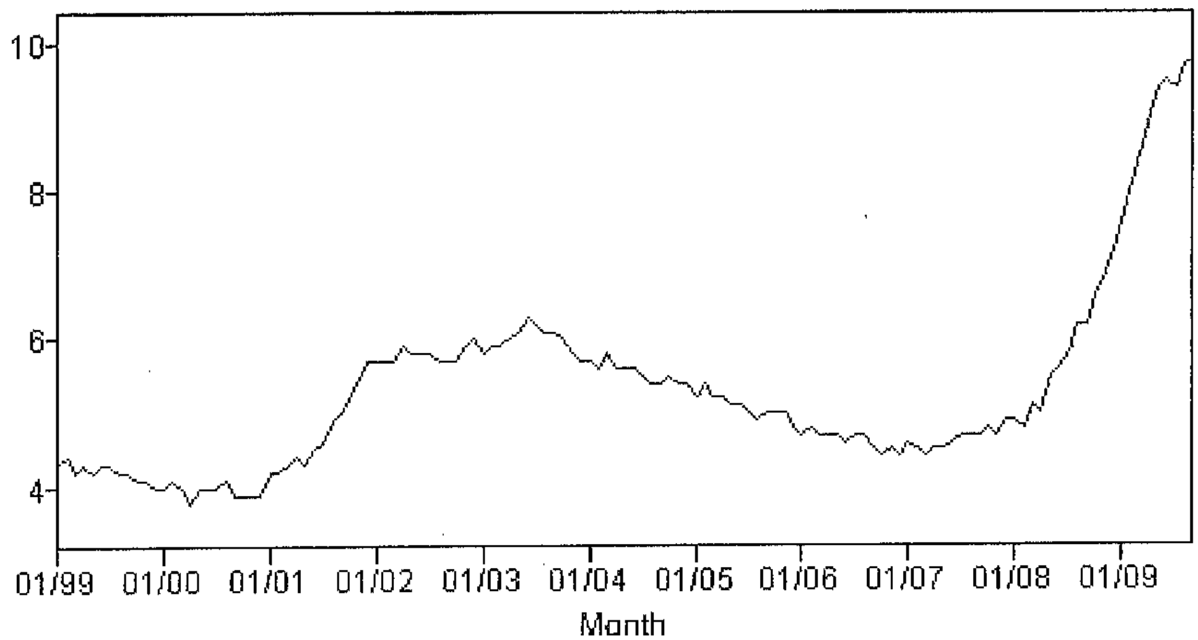
Economic Conditions

- The National Bureau of Economic Research identified December 2007 as the start of the economic recession.
- Metrics such as unemployment statistics show deterioration starting in 2007 (see following graph).
- Our estimates of claims occurring and the claim reporting data show increases in claim activity starting in 2007 and continuing in 2008.
- Worsening economic conditions have reduced the money available to households. For affected individuals, the additional income associated with a liability claim is more valuable than in the past.

AON GLOBAL

Economic Conditions

Series Id:	LNS14000000
Seasonal Adjusted	
Series title:	(Seas) Unemployment Rate
Labor force status:	Unemployment rate
Type of data:	Percent
Age:	16 years and over



“Never Events”

- Publicity surrounding the concept of “Never Events” has potential to increase frequency
  - The use of the term “Never Events” by CMS may be problematic for the defense of these claims
  - Perceived weakening of the hospital’s defense of such claims leads to more aggressive claim assertion and more settlement demands

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Change in Public Attention and Attitudes

- Reductions in claims during 2001-2005 coincided with media attention and public awareness of a crisis of professional liability insurance.
- The crisis faded and now public attention is focused on the rising costs of healthcare including waste, inefficiency, and defensive medicine.
- Public attitudes are currently less sympathetic

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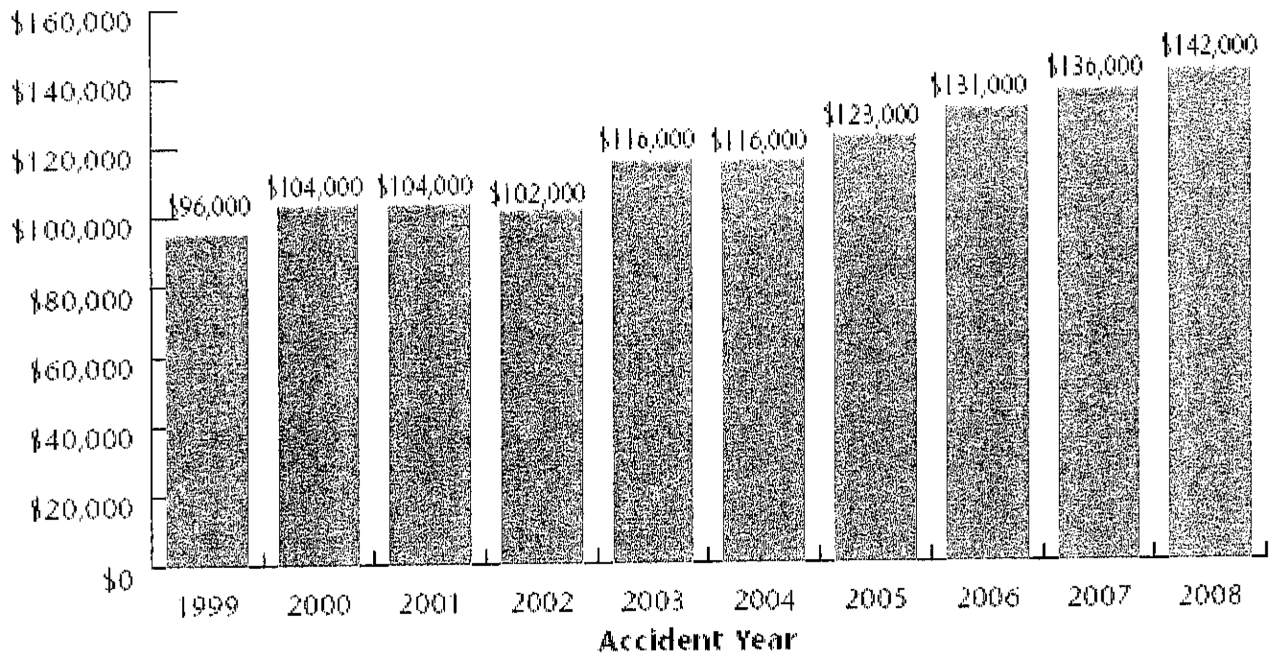
Hospital Claim Severity

- Severity been increasing at a stable inflationary rate. Future claim severity is expected to increase by 4% annually.

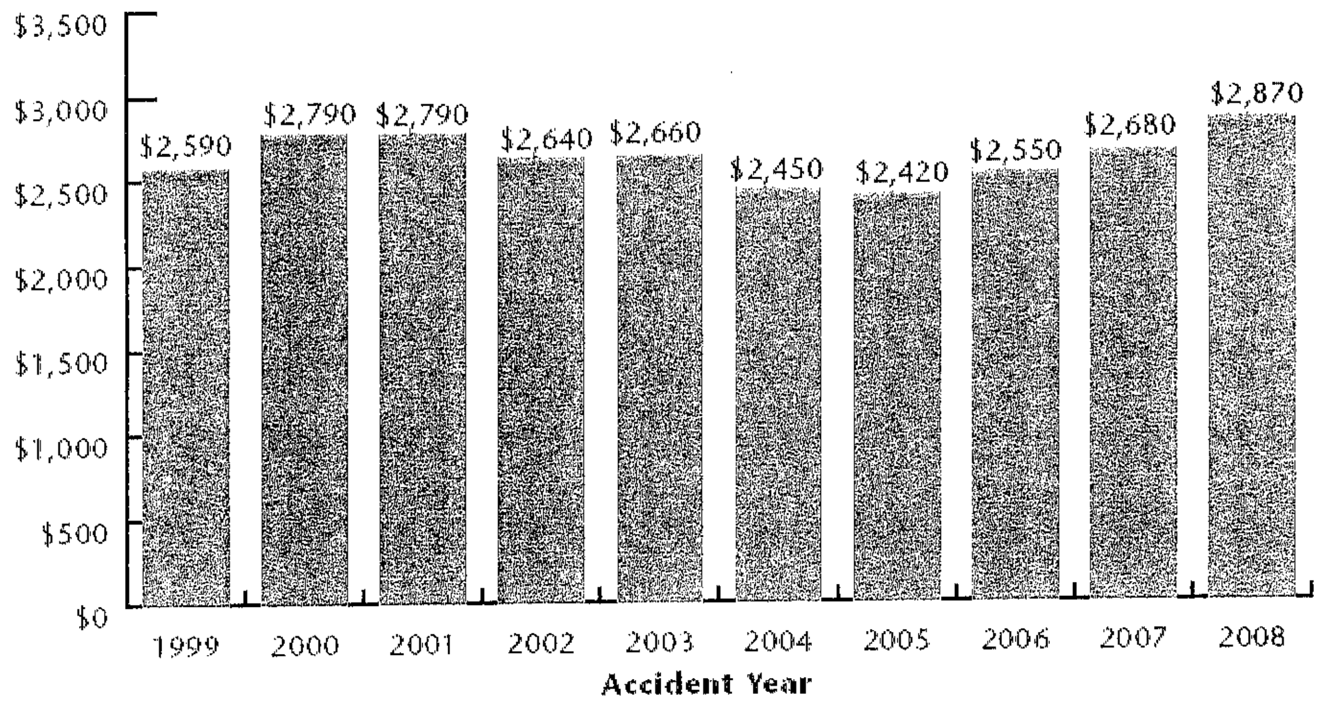
Hospital Professional Liability Benchmark
Overall Claim Severity Limited to $2M per Occurrence



Overall Loss Cost

- In 2010, Hospitals should expect to incur $3,170 per occupied bed equivalent. Loss Costs are increasing by 5% annually. For hospitals having significant self insurance, loss cost is a major component of the total cost of risk.

Hospital Professional Liability Benchmark
Overall Loss Cost Limited to $2M Occurrence



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Summary of 2010 HPL Projections

- We project the following for claims occurring in 2010.

Hospital Professional Liability Benchmark
HPL Benchmarks and Annual Trends for Losses Limited to $2 Million per Occurrence

Advisory Benchmarks	Projected 2010 Benchmark	Selected Annual Trend
Overall Frequency*	2.06%	1.0%
Indemnity Frequency*	0.85%	1.0%
Severity	$154,000	4.0%
Loss Cost*	$3,170	5.0%

*per occupied bed equivalent

AON GLOBAL

Hospital Acquired Conditions

- HAC's defined as:
  - Hospital Acquired Infections
  - Hospital Acquired Injuries (fractures, burns, intracranial injury, crushing injuries, etc)
  - Medication Errors in Hospital
  - Objects Left in Surgery
  - Pressure Ulcers
- The HAC's are defined to be similar to conditions defined in CMS Never Events list.

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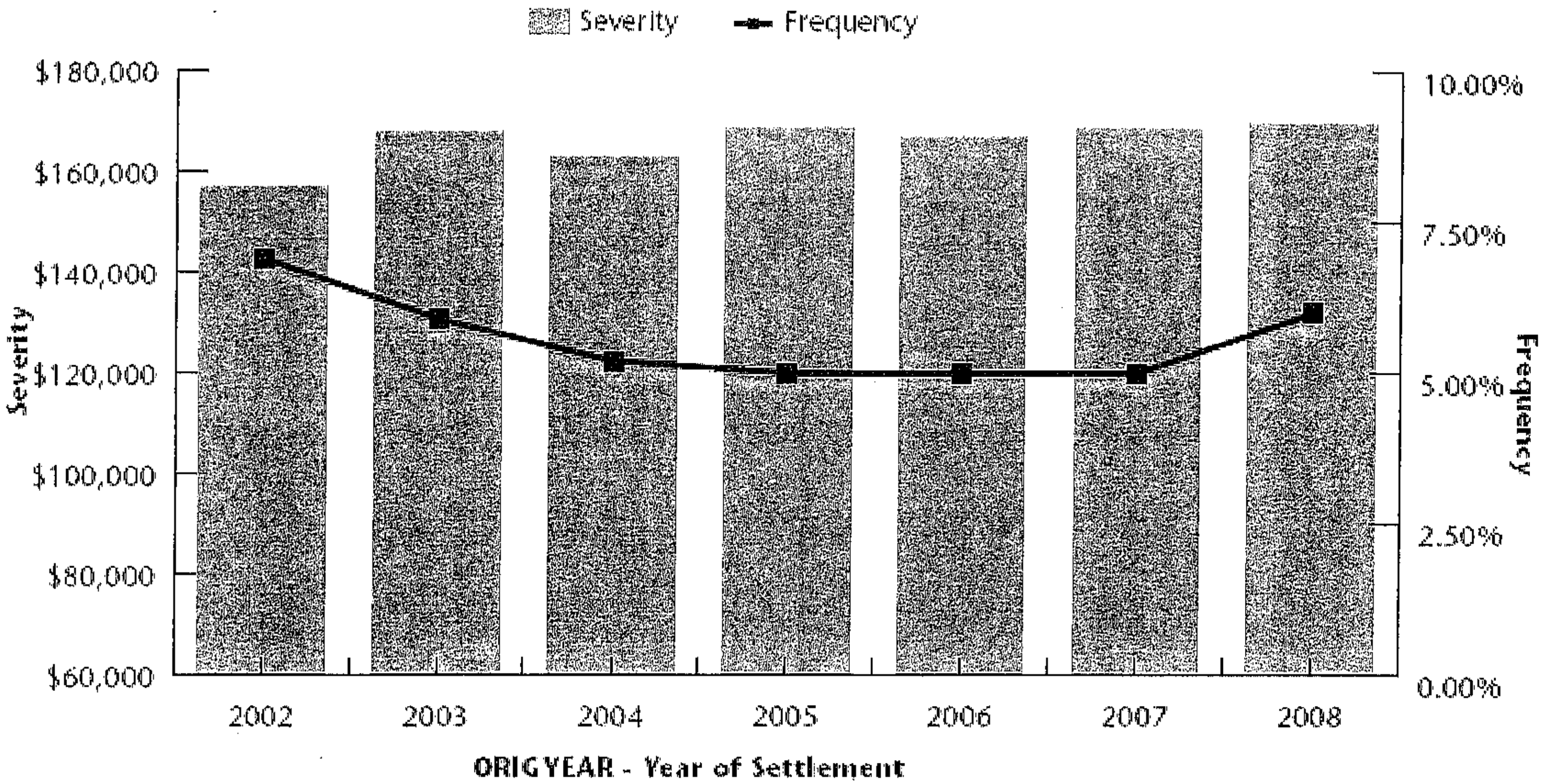
Frequency and Severity of Physician Liability Claims

FREQUENCY AND SEVERITY

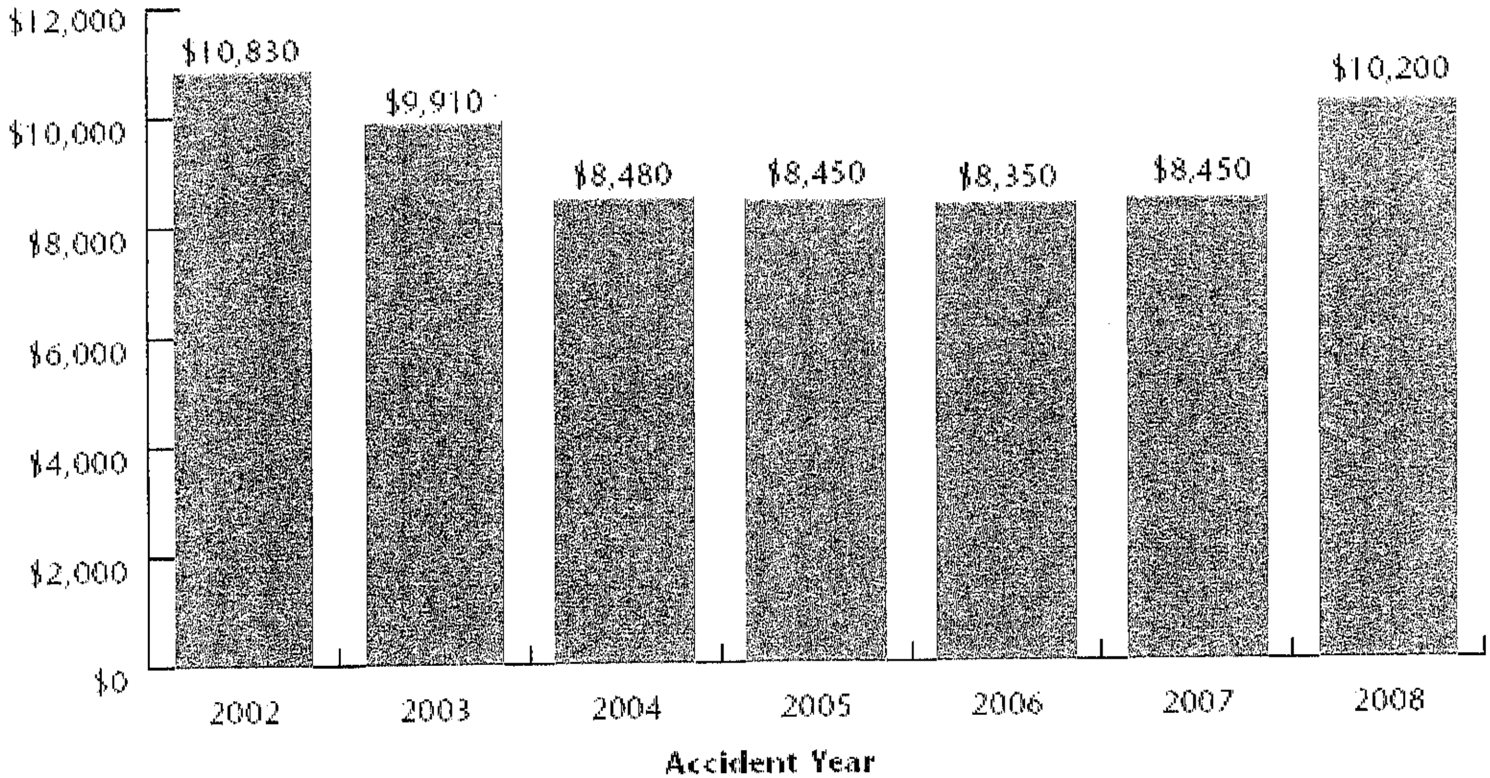
Aon Analysis of National Practitioner Data Bank Public Use Data File

Countrywide Severity per Claim/Frequency per Class 1 Equivalent - Unlimited



Physician Loss Cost per Class 1 Physician

Aon Analysis of National Practitioner Data Bank Public Use Data File
Countrywide Loss Cost per Class 1 Equivalent - Unlimited



Questions??

AON GLOBAL

West Virginia Board of Risk and Insurance Management

2009 audit results and communications

Ernst & Young
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The Board of Directors and Management
West Virginia Board of Risk and Insurance Management

November 17, 2009

Dear Members of the Board of Directors and Management:

We are pleased to present the results of our audit of the 2009 financial statements of West Virginia Board of Risk and Insurance Management (BRIM).

This report summarizes our audit, the scope of our engagement, the reports issued, and various analyses and observations related to BRIM's financial position and results of operations. The document also contains the communications required by our professional standards, as well as current accounting developments.

The audit is designed to express an opinion on the 2009 financial statements. We considered and will continue to consider BRIM's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that the entire Board of Directors expects. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of tests to be performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

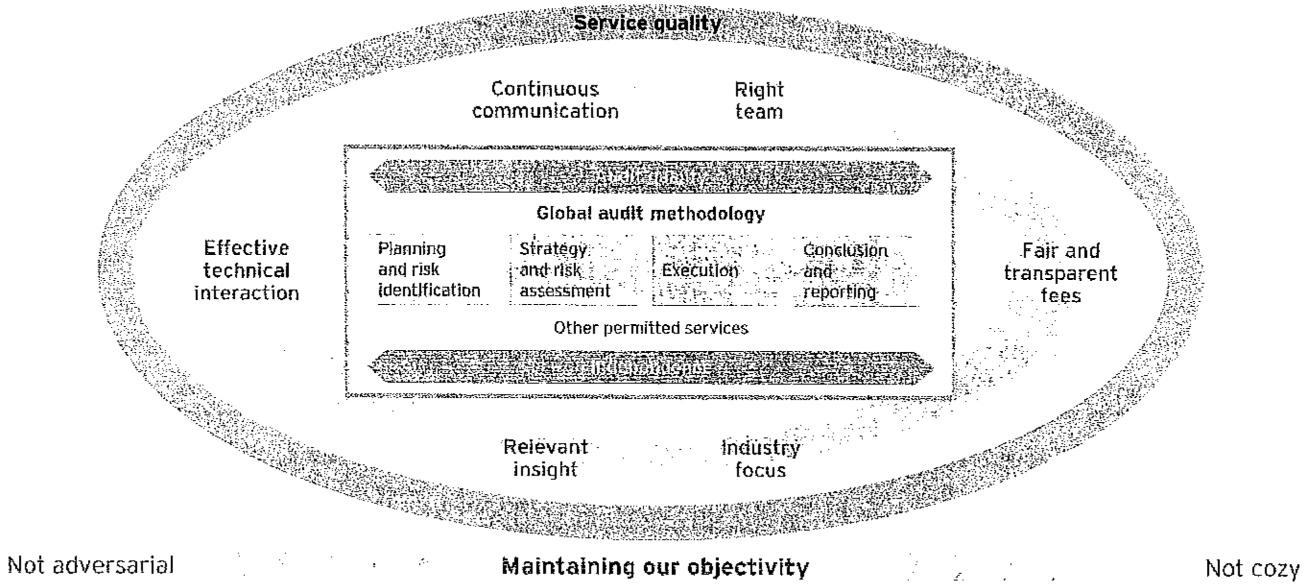
Very truly yours,

Robert D. Johnson
Partner

Contents

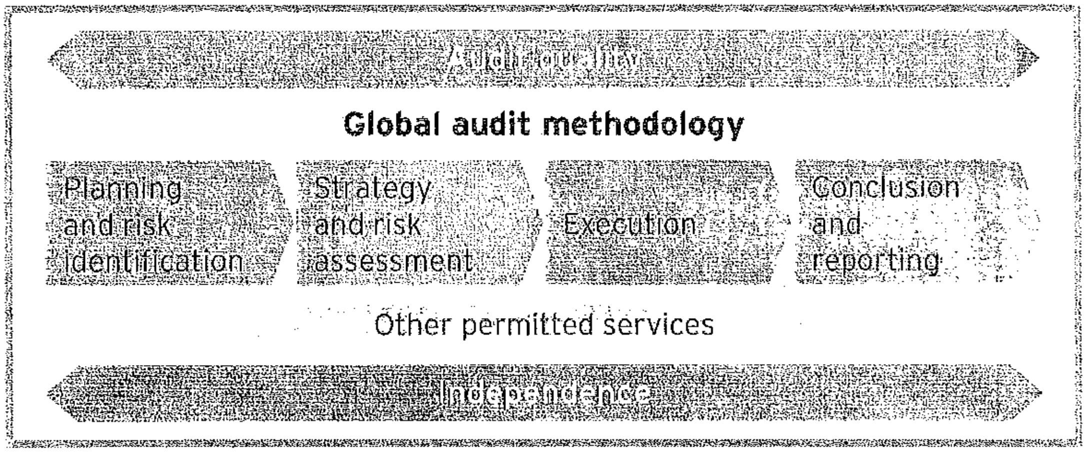
2009 audit results and communications

Our client service commitment to West Virginia Board of Risk and Insurance Management



Our service commitment	Ernst & Young is committed to delivering consistent high-quality client service to the West Virginia Board of Risk and Insurance Management. Our service commitment is centered on our most critical objective of performing a high-quality audit of the basic financial statements. Additionally, we strive to provide "Quality In Everything We Do" and recognize that service quality extends well beyond execution of our audit methodology. It is driven by the quality of our team and the effectiveness and value of our communications with management and the Board of Directors. Our overall service commitment to the West Virginia Board of Risk and Insurance Management is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Overview of the global audit methodology process



Important planning matters for Board of Directors' consideration

- Business and industry risk considerations
- Accounting and auditing developments
- Critical policies, estimates and areas of emphasis
- Fraud considerations and the risk of management override

Summary of what we agreed to do

Our audit plan represented an approach responsive to our risk assessments and the specific needs of the West Virginia Board of Risk and Insurance Management (BRIM). Specifically, we designed our audit to:

- Express an opinion on the basic financial statements of BRIM.
- Read BRIM's comprehensive annual financial report to be submitted to the Government Finance Officers Association (GFOA) (to be issued).
- Issue a 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*.

Areas of audit emphasis

The principal areas of audit emphasis were as follows:

- Unpaid claims and claims adjustment expense liability and the related expense accounts.
- Premiums receivable and related premium revenue.
- Unearned premiums.
- Advance deposits.
- Cash and cash equivalents.
- Investments and related income.

There were no significant changes to our planned audit approach or areas of audit emphasis.

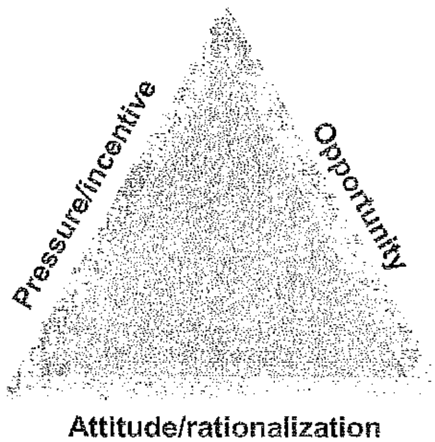
Fraud considerations and the risk of management override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit.)*

Our audit procedures will consider the requirements of SAS No. 99: brainstorming; gathering information to facilitate the identification of and response to fraud risks; and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates, and evaluating business rationale of significant unusual transactions).

We evaluate the risk of management override using the fraud triangle and consider the actions management has taken to respond to those risks. We consider, among other things:

- Code of Conduct/Ethics
- Effective and independent oversight by Audit Committee (consider AICPA Antifraud Paper for Audit Committees–January 2005)
- Process for dealing with Whistleblower allegations
- Adequacy of Internal Audit activity
- Entity's Risk Assessment Processes
- Role and oversight responsibilities of the Audit Committee
- Management's assessment of the risks of fraud
- Programs and controls to mitigate the risk of fraud
- Process for monitoring multiple locations for fraud



Occupational Fraud and Abuse, by Joseph T. Wells, CPA, CFR (Obsidian Publishing Co., 1997); *Fraud Examination*, by W. Steve Albrecht (Thomson South-Western Publishing, 2003)

- Management communication to employees on its views on business practices and ethical behavior

The following summarizes fraud risks we identified during the audit. For each risk, we developed our audit strategy to be responsive to such risk.

- Improper premium revenue recognition.
- Fraudulent claim activity and manipulation of subjective accounting estimates such as the claim reserve.

Required communications

Professional standards require the auditor to communicate certain matters to the Board of Directors that may assist the Board in overseeing management's financial reporting and disclosure process. Below we summarize these communications.

Area	Comments
Auditors' responsibilities under generally accepted auditing standards (GAAS) The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audits, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature, timing, and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.	We expect to issue an unqualified opinion on BRIM's financial statements as of and for the year ended June 30, 2009. As part of obtaining reasonable assurance about whether BRIM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Additionally, as part of our audit, we obtained a sufficient understanding of internal controls to plan our audit and determine the nature, timing, and extent of testing performed and not to provide assurance on internal control over financial reporting. We are prepared to issue our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
Critical accounting policies and practices We report all critical accounting policies and practices used by BRIM in preparing the financial statements and our assessment of the disclosure of such policies.	We have considered management's critical accounting policies and practices in our audit of the basic financial statements and related footnotes including: ▸ Unpaid claims and claims adjustment expense liability and the related expense accounts. ▸ Premiums receivable and related premium revenue. ▸ Unearned premiums. ▸ Advance deposits. ▸ Cash and cash equivalents. ▸ Investments and related income. We deem the related disclosures to be appropriate at June 30, 2009.
The adoption of, or a change in, an accounting policy We determine that the Board of Directors is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.	No new significant accounting pronouncements were required to be adopted.
Auditors' judgments about the quality of accounting principles We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in its financial reporting, the consistency of their application, and the clarity and completeness of BRIM's financial statements, which include related disclosures.	We evaluated the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of BRIM's financial statements, which included related disclosures. Management continues to utilize accounting policies that are consistent with the prior year industry standards.

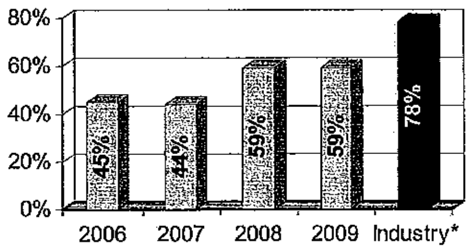
Area	Comments
Sensitive accounting estimates The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Board of Directors is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	Significant estimates made by management relate to the estimation of the claims reserve. Management utilizes an external consulting actuary to assist with the estimation process. Management believes the estimate for unpaid claims and claims adjustment expense is reasonable. However, because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing estimates of claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability and medical malpractice. Accordingly, BRIM's actual incurred losses and loss adjustment expenses may vary significantly from the amounts reflected in BRIM's financial statements. All significant estimates used by management were evaluated and considered to be reasonable in all material respects.
All material alternative accounting treatments discussed with management We report to the Board of Directors or those charged with governance all alternative accounting treatments within GAAP for policies and practices related to material items (including recognition, measurement, presentation, and disclosure alternatives) that have been discussed with management during the current audit period including: (i) Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected. (ii) The treatment preferred by us.	There were no material alternative accounting treatments discussed with management.
Methods of accounting for significant unusual transactions and for controversial or emerging areas We determine that the Board of Directors is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by BRIM or of any significant accounting policies used by BRIM related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant audit adjustments We provide the Board of Directors with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate, have a significant effect on BRIM's financial statements.	There were no significant recorded audit adjustments related to the 2009 audit.
Unrecorded audit differences considered by management to be immaterial We inform the Board of Directors about unrecorded audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.	There were no unrecorded audit differences for the 2009 audit.
Fraud and illegal acts We report to the Board of Directors fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.	No matters were communicated by management to us and no material errors, irregularities, or illegal acts came to our attention.

Area	Comments
Significant deficiencies and material weaknesses in internal control We are required to communicate all significant deficiencies and material weaknesses that were identified during the course of our audit.	No material weaknesses were identified.
Other information in documents containing audited financial statements	BRIM has presented supplementary information with its financial statements required by Governmental Accounting Standards Board Statement No. 30. We did not audit and do not express an opinion or any other form of assurance on such information. However, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. BRIM also presented other financial information requested by the State of West Virginia (the State). This other financial information is not a required part of the financial statements but is presented for purposes of additional analyses. We have compared this information with BRIM's accounting records and determined it is consistent with BRIM's financial statements.
Disagreements with management	None.
Serious difficulties encountered in dealing with management when performing the audit	None.
Major issues discussed with management in connection with initial or recurring retention	None.
Consultation with other accountants	None of which we are aware of.
Independence We communicate, at least annually, the following to the Board of Directors: 1. Disclose, in writing, all relationships between Ernst & Young and our related entities and the Company and its related entities that, in our professional judgment, may reasonably be thought to bear on independence; and 2. Confirm in writing that, in our professional judgment, we are independent of BRIM within the meaning of the applicable regulatory requirements.	1. We are not aware of any relationships between Ernst & Young and BRIM that, in our professional judgment, may reasonably be thought to bear on our independence. 2. Relating to our audit of the financial statements of BRIM as of June 30, 2009, and for the year then ended, we are independent certified public accountants with respect to BRIM within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings, and the requirements of *Government Auditing Standards*. Our policies relating to financial interests (e.g., stock ownership, loans, and other credit) generally are stricter than the requirements imposed by these regulatory and professional bodies.
AICPA ethics ruling regarding third-party service providers From time-to-time and depending upon the circumstances, third-party service providers, independent contractors and consultants to Ernst & Young may participate in providing professional services. AICPA Ethics Ruling No. 112 under Rule 102, *Integrity and Objectivity*, requires that we inform clients whenever we use a third-party service provider in providing professional services to a client. The Rule has broadly defined "third-party service provider" to include an individual who is not employed by our US firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non-US personnel who work for Ernst & Young affiliate firms (e.g., Ernst & Young United Kingdom), non-US personnel working in the US on a foreign secondment, non-US personnel working at Ernst & Young IT shared service centers.	We did not use any non-US firm personnel on the 2009 audit.

Industry analysis

Ratio comparison

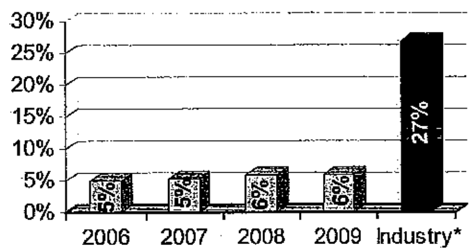
Loss Ratio



The loss ratio measures claims cost experience. It is derived by dividing claims and claims adjustment expenses by earned premiums. This ratio can soar during a period of heavy catastrophe losses.

The 2009 loss ratio has remained consistent with the prior year as claims expense has declined in proportion with the decline in earned premiums.

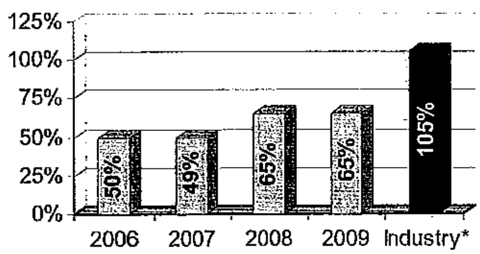
Expense Ratio



The expense ratio measures how cost-effectively an insurer writes new business. It is derived by dividing general and administrative expenses by written premiums.

BRIM's expense ratio is well below the industry average. This is mainly due to low overhead and the requirement of state entities to obtain insurance coverage from BRIM. The 2009 expense ratio has remained consistent with the previous years.

Combined Ratio



The combined ratio is one of the key ratios used to measure underwriting performance. It is equal to the sum of the loss ratio and the expense ratio. A combined ratio below 100% indicates an underwriting profit, while a combined ratio in excess of 100% points to an underwriting loss.

BRIM's combined ratio is below the industry average due to the expense ratio factors discussed above. The 2009 combined ratio has remained consistent with the previous years.

**Industry data obtained from Standard & Poor's Industry Surveys, Insurance: Property/Casualty, July 9, 2009.*

Industry trends

Source: Standard & Poor's Industry Surveys, Insurance: Property/Casualty, July 9, 2009.

The combination of deteriorating underwriting and investment results that plagued many insurers during 2008 could ultimately lead to a firming of premium rates for most lines of coverage, as these losses remove the so-called "excess" underwriting capacity from the marketplace and enable many carriers to raise rates (or at least stop cutting rates). However, the impact of these pricing gains (or stabilizations) may be muted or offset by the effects of the recession on overall economic activity. Moreover, since it takes approximately a year for these increases to be recognized as revenue, top-line growth among property-casualty insurers will likely remain constrained in coming periods. Exacerbating the impact in the near term is a likelihood that investment income remains under pressure. In addition to the ongoing capital markets pressures, insurers have also had the additional (and continuing) challenge of dealing with catastrophe losses. After a lull in 2006 and 2007 following record losses in 2005, catastrophes once again ticked upward in 2008.

Most property-casualty insurers are expected to weather the credit crisis and attendant global recession better than certain other subsets of the financial services sector (such as investment banks and mortgage entities), nevertheless there will be a certain amount of fallout from the crisis. Monoline insurers, those that guaranty debt, are likely to be the hardest hit, largely due to their forays into the structured finance market. Property-casualty insurers who underwrote directors and officers (D&O) liability coverage and errors and omissions (E&O) coverage for an array of financial institutions caught up in the credit crisis will also see an up tick in claim trends.

Another possible impact to the industry from the credit crisis and frozen capital market may be an increased demand for so-called traditional reinsurance, as primary insurance carriers face balance sheet pressure and resume their attempt to offset this through the transfer of risk to reinsurers. A heightened demand for reinsurance, coupled with reduced capacity (due to reinsurers' underwriting and investment losses like those experienced by the primary carriers) may also lead to an upturn in pricing for many lines of reinsurance.

Profits plunge in 2008 as underwriting and investments both falter

After peaking in 2006, industry underwriting results and profitability have declined in the last two years. Thanks to significantly lower catastrophe claims and to solid investment results, the industry posted after-tax profits of $65.8 billion in 2006. Crucial to that performance was the absence of 2005's record catastrophe losses of $61.9 billion, most of which were related to Hurricanes Katrina, Rita, and Wilma. With catastrophe losses of only $9.2 billion in 2006, the industry reported a $31.1 billion net gain from underwriting, compared with a $5.6 billion underwriting loss in 2005, according to the Insurance Services Office (ISO), an industry research group.

Against that backdrop, year-over-year comparisons in 2007 were difficult, but the industry managed to post a $19.3 billion net underwriting gain. However, the dual challenges of deteriorating underwriting results and significantly impaired investment results led to a 96% plunge in net income in 2008, according to ISO data released in late April 2009. For the year ended December 31, 2008, insurers in the ISO study reported a 1.4% decline in net written premiums to $434.6 billion from $440.6 billion in 2007 (as restated). Written premiums represent business produced in a given period. Insurers account for this business over the life of a policy (typically 12 months). Hence, the general volume and direction of written premiums in one year is usually a good indication of the level of earned premiums (a revenue component on the income statement) the following year.

Written premiums in the personal lines sector (the industry's largest, accounting for more than 40% of written premiums) slipped 0.1%, year over year, in 2008. This group's business consists primarily of personal auto and homeowners' coverage, which is highly regulated and not prone to great pricing swings. However, premium rates for auto insurance have been under pressure for the last several years and indications are that competition here has remained intense. Offsetting the modest decline in personal lines premiums was a greater degree of deterioration in the commercial lines sector (which accounted for 39% of total industry written premiums) in 2008. That group reported a 2.2% year-over-year drop in written premiums, providing empirical support for anecdotal evidence that the commercial lines market remains highly competitive. Balanced lines underwriters, who write a combination of personal and commercial lines coverage, accounted for the remaining 21% of industry written premiums. This group posted a 2.1% decline in written premiums in 2008. Earned premiums for insurers in the ISO study declined 0.2% to $438.1 billion in 2008, compared with $438.9 billion in 2007. This decline (albeit modest) represented a marked contrast to the double digit rise in premiums that occurred in "hard market" that ensued in the aftermath of the September 11 terrorist attacks: earned premiums advanced 11.9% in 2002 and 10.9% in 2003. Growth has been trending downward ever since.

Looking ahead, Standard & Poor's anticipates that written premiums for property-casualty insurers will likely advance modestly (1% to 2%) in 2009 and may rise 2% to 4% in 2010. Earned premiums are expected to be flat to down slightly in 2009 and will likely rise modestly in 2010. These forecasts reflect our view that the dual pressures of weak underwriting and investment results will likely remove enough capacity from the insurance marketplace to help rates rise modestly. Partly offsetting this, we believe, is the downward pressure on demand placed by a weaker economic environment.

Investment results exacerbated a weak underwriting climate

Investment income is an important revenue source for insurers, often accounting for 15% to 20% or more of an insurer's total revenues historically. However, numerous pressures affected investment results in 2008. Higher catastrophe losses, eroding claim trends in a number of casualty lines, and a surge in bond insurers' loss costs all combined to exert downward pressure on cash flows available for investment in 2008. Making matters worse, many insurers were forced to write down the value of their investment holdings.

Consequently, net investment income for property-casualty insurers declined 7.1% in 2008, to $51.2 billion, from $55.1 billion in 2007. Standard & Poor's anticipates that net investment income will likely remain under pressure for most of 2009, with a modest recovery likely in 2010. This forecast assumes a "normal" level of catastrophe losses for the industry. Although investment income growth may also be restrained somewhat by turmoil in the market for mortgage-backed securities, Standard & Poor's does not anticipate that property-casualty insurers will experience any material adverse impact to their financial situation because of their exposure to this asset class.

Realized investment losses (incurred when investments are sold) ballooned to $19.8 billion in 2008. This contrasts rather sharply with $8.9 billion of realized investment gains the industry accrued in 2007. More striking was the level of insurers' unrealized losses. Insurers had unrealized investment losses of $52.9 billion in 2008, up sharply from unrealized losses totaling $546 million in 2007; and an even more stark contrast to the industry's unrealized gains of $20.6 billion in 2006. (Note: analysts typically exclude the impact of net realized investment gains on insurers' profits when forecasting earnings. Instead, they base earnings estimates on net operating earnings, which exclude these gains and/or losses.)

Loss trends deteriorate amid higher catastrophes and bond insurers' woes

Loss costs and related expenses (commonly referred to as loss adjustment expenses) are often the largest expense item facing an insurer. A change in the direction of these expenses can dramatically affect bottomline results.

Insurers in the ISO survey reported erosion in underwriting margins during 2008. Incurred losses rose 17.5% to $287.5 billion, from $244.7 billion in 2007. Despite this, insurers tightened their belts. As such, loss adjustment expenses (the costs incurred in settling claims) totaled $51.7 billion in 2008, down 1.1% from $52.3 billion of reported loss adjustment expenses in 2007. The two primary factors behind the erosion in 2008 underwriting results were a sharp rise in catastrophe losses (which totaled $21.8 billion in 2008, versus $6.9 billion in 2007) and a deterioration in mortgage and financial guaranty insurance claims trends.

Combined ratio a key gauge of underwriting performance

The combined ratio is a key measure of underwriting performance. It is the sum of the loss ratio, the expense ratio, and (where applicable) the dividend ratio. A combined ratio under 100% indicates an underwriting profit, while one in excess of 100% means there is an underwriting loss. Insurers in the ISO study reported a combined ratio of 105.1% for all of 2008, compared with 95.5% in 2007.

Underwriting results deteriorated across the board, although the magnitude of erosion varied somewhat by type of insurer. Commercial lines underwriters saw the sharpest deterioration in their underwriting results, with a combined ratio of 108.7% in 2008, compared with 94.2% in 2007. Deterioration in the mortgage and financial guaranty marketplace primarily drove these results; when they are excluded, the commercial lines underwriters reported a combined ratio of 101.0% in 2008 versus 94.6% in 2007. The deterioration in these results (excluding mortgage and financial guaranty) largely reflects the impact of higher catastrophe losses and erosion in workers' compensation results.

Personal lines writers were hurt by erosion in two key lines of coverage (auto and homeowners') and also posted a sizable increase in their combined ratios: 104.6% in 2008 versus 96.9% in 2007. Balanced lines underwriters, which write both commercial and personal lines of coverage, incurred the most modest downturn in their results, which remained profitable in 2008. Their combined ratio increased to 99.1% in 2008 from 95.3% in 2007.

Loss ratios for this representative group of insurers (accounting for more than 96% of industry premium volume) equaled 77.4% in 2008, compared with 67.7% in 2007. Again, these results reflected the impact of higher catastrophe-related claims and sharply higher financial guaranty claims (largely related to the meltdown in the mortgage market and in mortgage-backed securities). These results also include loss adjustment expenses (LAE). As such, personal lines insurers posted a loss ratio of 78.8% in 2008 versus 71.2% in 2007. Commercial lines insurers reported the most significant deterioration in their loss ratios during 2008, with a loss ratio of 80.9% versus 66.3% in 2007. Balanced lines underwriters also experienced a deterioration to 68.1% in 2008 from 63.5% in 2007.

Industry expense ratios declined slightly in 2008, as insurers implemented cost-cutting measures to offset sluggish top-line growth. Still, expense ratios have been climbing steadily since 2003 when they ended the year at 24.9%. Results were mixed by product line, as personal lines insurers experienced an increase in their expense ratios, which inched up to 25.4% in 2008 from 25.1% in 2007. We attribute this increase primarily to heightened competition in the personal lines arena. Commercial lines insurers held the line on expenses, as evidenced by their expense ratio of 27.3%, unchanged from a year ago. Balanced lines underwriters managed to shave some points off their expense ratio, which ended 2008 at 30.6%, down from 31.4% in 2007.

A

Appendix A: Draft basic financial statements, required supplemental schedules, and other financial information

Financial Statements, Required Supplemental Schedules, and Other Financial Information

West Virginia Board of Risk and Insurance Management
(an Enterprise Fund of the State of West Virginia)
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

0909-1086753

West Virginia Board of Risk and Insurance Management

Financial Statements, Required Supplemental Schedules, and Other Financial Information

Years Ended June 30, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
West Virginia Board of Risk and Insurance Management

We have audited the accompanying statements of net assets of the West Virginia Board of Risk and Insurance Management (BRIM) (an enterprise fund of the State of West Virginia) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BRIM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements of BRIM are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM (an enterprise fund of the State of West Virginia) as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October __, 2008, on our consideration of BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2009 audit.

Management's Discussion and Analysis on pages 3 through 11 and the unaudited supplemental schedules of Ten-Year Claims Development Information on page 38 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the Management's Discussion and Analysis on pages 3 through 11 and the Ten-Year Claims Development Information on page 38 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 39, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit of the basic financial statements was conducted for the purpose of forming opinions on the financial statements that collectively comprise BRIM's basic financial statements. Other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of BRIM. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis on pages 3 through 11 and the unaudited supplemental schedules of Ten-Year Claims Development Information on page 38 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 39 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

October __, 2008

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis

Year Ended June 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

Management of the West Virginia Board of Risk and Insurance Management (BRIM) provides this Management Discussion and Analysis for readers of BRIM's financial statements. This narrative overview of the financial activities of BRIM is for the years ended June 30, 2009, 2008, and 2007. BRIM provides property and casualty insurance to State of West Virginia (the State) agencies and Senate Bill 3 entities (SB3), which include boards of education, and governmental and nonprofit organizations. BRIM also administers a coal mine subsidence reinsurance program, which makes available to the general public dwelling insurance covering damage caused by the collapse of underground coal mines. From December 2001 until novation to a physician's mutual on July 1, 2004, BRIM's program was expanded to include providing medical malpractice insurance to private sector health care providers (referred to hereafter as the House Bill 601 Program). The hospitals that were nonrenewed in 2003 are still being managed by BRIM for claims that were made during the period they were insured.

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP) for governmental entities. The three basic financial statements presented are as follows:

- *Statement of Net Assets*—this statement presents information reflecting BRIM's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.

- *Statement of Revenues, Expenses, and Changes in Net Assets*—this statement reflects the operating and nonoperating revenues and expenses for the operating year. Operating revenues primarily consist of premium income with major sources of operating expenses being claims loss and loss adjustment expense and general and administrative expenses. Nonoperating revenues primarily consist of investment income and appropriations from the State.

- *Statement of Cash Flows*—the statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, noncapital financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

FINANCIAL HIGHLIGHTS

The following tables summarize the financial position and the results of operations as of and for the years ended June 30, 2009, 2008, and 2007 (in thousands):

				Change 2009–2008		Change 2008–2007	
	2009	**2008**	**2007**	**Amount**	**Percent**	**Amount**	**Percent**
Cash	**$ 32,181**	$ 30,595	$ 33,083	$ 1,586	5%	$ (2,488)	(8)%
Advance deposits with carrier/trustee	**174,215**	158,436	115,836	15,779	10	42,600	37
Receivables	**1,003**	1,439	2,392	(436)	(30)	(953)	(40)
Total current assets	**207,399**	190,470	151,311	16,929	9	39,159	26
Noncurrent investments	**105,461**	109,325	117,127	(3,864)	(4)	(7,802)	(7)
Total assets	**312,860**	299,795	268,438	13,065	4	31,357	12
Estimated claim expense	**48,650**	50,693	50,851	(2,043)	(4)	(158)	0
Unearned premiums	**7,235**	7,705	8,659	(470)	(6)	(954)	(11)
Agent commissions payable	**1,247**	1,621	1,985	(374)	(23)	(364)	(18)
Accrued expenses	**629**	559	483	70	13	76	16
Total current liabilities	**57,761**	60,578	61,978	(2,817)	(5)	(1,400)	(2)
Estimated claim expense	**104,083**	111,535	108,713	(7,452)	(7)	2,822	3
Compensated absences	**58**	52	200	6	12	(148)	(74)
Total noncurrent liabilities	**104,141**	111,587	108,913	(7,446)	(7)	2,674	2
Total liabilities	**161,902**	172,165	170,891	(10,263)	(6)	1,274	1
Net assets:							
Restricted	**33,924**	33,634	31,117	290	1	2,517	8
Unrestricted	**117,034**	93,996	66,430	23,038	25	27,566	41
Net assets	**$ 150,958**	$ 127,630	$ 97,547	$ 23,328	18	$ 30,083	31

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

	2009	2008	2007	Change 2009–2008 Amount	Change 2009–2008 Percent	Change 2008–2007 Amount	Change 2008–2007 Percent
Premiums	**$ 62,427**	$ 72,986	$ 80,248	$ (10,559)	(14)%	$ (7,262)	(9)%
Less excess coverage	**(5,944)**	(6,394)	(6,151)	450	7	(243)	(4)
Net operating revenues	**56,483**	66,592	74,097	(10,109)	(15)	(7,505)	(10)
Claims and claims adjustment expense	**36,604**	42,982	35,136	(6,378)	(15)	7,846	22
General and administrative	**3,894**	4,247	4,305	(353)	(8)	(58)	(1)
Total operating expenses	**40,498**	47,229	39,441	(6,731)	(14)	7,788	20
Operating income	**15,985**	19,363	34,656	(3,378)	(17)	(15,293)	(44)
Nonoperating revenues:							
Investment income	**7,312**	10,512	18,022	(3,200)	(30)	(7,510)	(42)
Financing income	**31**	30	25	1	3	5	20
Other postemployment benefits	–	30	–	(30)	0	30	–
Total nonoperating revenues, net	**7,343**	10,572	18,047	(3,229)	(31)	(7,475)	(41)
Changes in net assets	**23,328**	29,935	52,703	(6,607)	(22)	(22,768)	(43)
Total net assets – beginning	**127,630**	97,547	44,844	30,083	31	52,703	118
Change in accounting principle for other postemployment benefits	–	148	–	(148)	0	148	–
Total net assets – beginning, adjusted	**127,630**	97,695	44,844	29,935	31	52,851	–
Total net assets – end	**$ 150,958**	$ 127,630	$ 97,547	$ 23,328	18	$ 30,083	31
Total revenues	**$ 63,826**	$ 77,164	$ 92,144	$ (13,338)	(17)	$ (14,980)	(16)
Total expenses	**$ 40,498**	$ 47,229	$ 39,441	$ (6,731)	(14)	$ 7,788	20

FINANCIAL HIGHLIGHTS

- Total assets increased $13,065,000 from 2008 to 2009 and $31,357,000 from 2007 to 2008. The increases are due primarily to the additional advance deposits made in 2007, 2008 and 2009 under the advance deposit prefunding arrangement established in 2006.

- Total liabilities decreased $10,263,000 from 2008 to 2009 and increased $1,274,000 from 2007 to 2008. The decrease from 2008 to 2009 relates to better defined loss development patterns impacting automobile and general liability claims for the State and Senate Bill 3 programs that reduced the ultimate loss estimates for these segments. The increase from 2007 to 2008 is primarily due to general changes in the estimated retained reserves.

- The total net assets for 2009 are $150,958,000, reflecting an overall increase of $53,411,000 since 2007 when total net assets were $97,547,000. Several factors contributed to the increase. Specifically, the anticipated costs incurred to address the recovery of both estimated and projected expenses that were included for the State and Senate Bill 3 premium rating calculations in prior years were subsequently determined to be substantially less than what was initially determined for the actual rating periods for these programs. Part of this reduction is reflected in an overall decrease in the provisions for prior year's outstanding estimated claims reserves in 2009 and 2008. This reduction increased net assets by approximately $33,544,000 over the last two years. During 2009, BRIM recovered premium surcharges approximating $6,288,000 from an insurance carrier. This amount includes $4,980,000 that was expensed in prior years. Investment income of $7,312,000 in 2009 and $10,512,000 in 2008 also contributed to the increase in net assets since 2007. Restricted net assets of $33,924,000, $33,634,000, and $31,117,000 in 2009, 2008, and 2007, respectively, relates to mine subsidence coverage provided to the general public based on restrictions provided in the West Virginia State Code and to the medical malpractice tail coverage provided by the House Bill 601 Program.

- Total net operating revenues decreased from $66,592,000 to $56,483,000 from 2008 to 2009 due to overall reductions in the premium levels required to adequately fund the State and Senate Bill 3 programs and from a decrease in the premiums billed to the medical malpractice schools based on the projected reduction in the estimated losses to be incurred by the program. The medical malpractice schools program requires a higher self-insured retention for each claim incurred by the program participants that increased their deductible to $250,000 per claim. Total net operating revenues decreased from $74,097,000 to $66,592,000 from 2007 to 2008 due to the implementation of the revised medical malpractice claims deductible program and an overall reduction in premium rates charged to State and Senate Bill 3 entities.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

- Total operating expenses decreased from $47,229,000 in 2008 to $40,498,000 in 2009. The overall net decrease in claims and claims adjustment expense of $6,378,000 resulted from the refinement of the loss development patterns reducing the year over year retained loss estimates by approximately $9,496,000. This reduction was partially offset by an increase in the actual claims payment made in 2009 versus 2008. The increase in net operating expense from $39,441,000 in 2007 to $47,229,000 in 2008 reflects the increase in the year over year retained loss estimates in the State and Senate Bill 3 general liability programs.

- Nonoperating revenues have decreased in the past three years. There was a $3,229,000 reduction from 2008 to 2009 and a $7,475,000 decrease from 2007 to 2008. These reductions reflect reduced overall investment returns and valuation changes resulting from marking investment holdings to market.

- Total revenues and total expenses from 2009 to 2008 and from 2007 to 2008 have fluctuated due to year over year reductions in premium rates, the changes in the retained loss estimates and lower investment market returns. See the above explanations for additional information.

West Virginia Board of Risk and Insurance Management

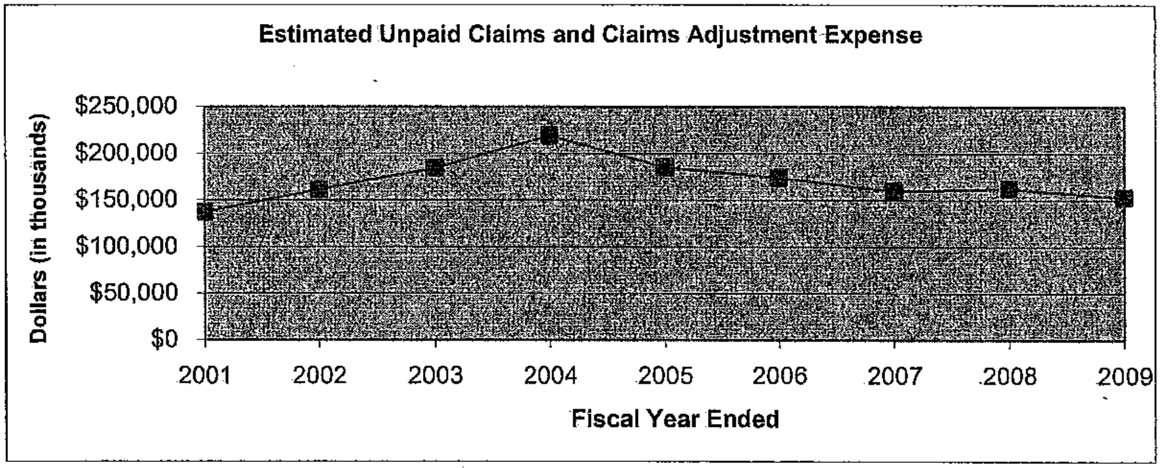
Management's Discussion and Analysis (continued)

OVERALL ANALYSIS

The overall condition of BRIM has improved from the prior year. Proper premium assessments, investment earnings, aggressive risk management, and the reduction in the estimated claims liability have allowed BRIM to further increase the net assets for this year, reflecting net assets of $150,958,000 at June 30, 2009. BRIM implemented and continues to strictly adhere to a comprehensive financial stability plan.

Unpaid Claims Liability

BRIM's most significant number on its statements of net assets is the liability for estimated unpaid claims and claims adjustment expense. This liability consists of two parts: claims that BRIM is aware of which have been reserved and incurred but not reported (IBNR) claims, which are projected by an independent actuary. From fiscal year 2008 to 2009, the liability for unpaid claims decreased from $162,228,000 to $152,733,000. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2001 through 2009.



House Bills 601 and 2122

In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies' non-renewing insurance policies for health care providers on a national level and in the State.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

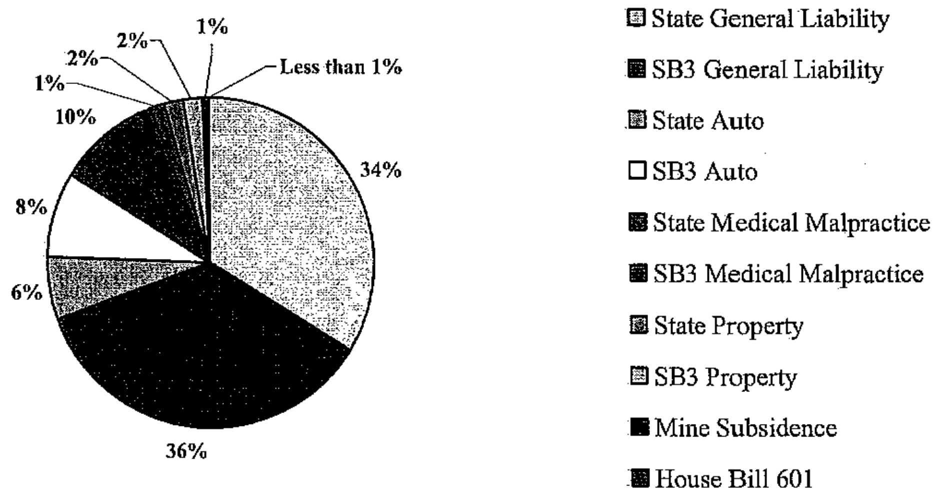
During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for BRIM's insured physicians to novate into a physician's mutual. On July 1, 2004, House Bill 601 physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were non-renewed by BRIM prior to June 30, 2004. The program is in "runoff" mode, and BRIM continues to service and pay claims that were made during the effective period or claims relating to tail coverage purchased. Tail coverage was offered to all terminated insurers in House Bill 601. This tail coverage covers the insured on any IBNR claims during the policy period.

Results by Line of Business for BRIM

BRIM is comprised of the State (state agencies), SB3 (for nonprofits, boards of education, and other governmental units), mine subsidence (for home and business owners), and the House Bill 601 (medical malpractice for private physicians) lines of business.

The following chart shows the breakdown by customer and line of business of the total estimated claim liability number, which is $152,733,000. As demonstrated in the chart, the largest claim volume for BRIM relates to general liability for the State agencies and SB3 programs and the State agencies' medical malpractice coverage.

Components of Total Claim Liability by Customer and Line of Business



There is no long-term debt activity.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Management's Plan to Maintain Net Assets by Line of Business

By the end of 2008, BRIM had eliminated the deficiency in net assets for all of the lines of business for the programs it oversees. The deficiency arose primarily due to adverse claim development in the general liability and medical malpractice lines of business for the State and SB3. The following paragraphs describe the essential plans that BRIM has followed and will continue to follow to ensure that all lines of business are solvent independently.

Risk Management

BRIM has advanced an aggressive risk management plan during the past three years to address the significant losses that have occurred. Processes are in place to allow for better organization and for proper documentation of activities. BRIM has been working on ways to increase and improve communications, both within the agency and with its customers, and has been promoting interaction within the agency with regard to loss control utilization. In conjunction with the underwriting department, a system of credits and surcharges are in place, based on loss control efforts and cooperation, or lack thereof, on the part of BRIM's insurers.

Investment Return

In 2009, BRIM maintained the funds invested with the West Virginia Investment Management Board (WVIMB) and reinvested all of the earnings on the funds for the fiscal year. In 2008, BRIM sold $8,000,000 of its holdings with the WVIMB in order to provide a portion of the funding for the current years advance deposits requirements. All BRIM funds held by the WVIMB are invested for the benefit of the pool participants. BRIM invests and withdraws its monies from these funds as needed primarily for operating and short-term cash requirements. Investment income had increased in prior fiscal years but due to the fluctuations in the market during fiscal year 2009 investment returns decreased.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

Premium Determination Process

BRIM has properly maintained premiums across all lines of business for the past several years based on relevant exposure data and claims loss history. Charging proper premiums, consistent with the commercial industry, has enabled BRIM to adequately cover losses. Further, fiscal years 2009 and 2008 showed signs of favorable loss trends, which BRIM hopes will continue.

REQUESTS FOR INFORMATION

This financial report is designed to provide BRIM's customers, governing officials, legislators, citizens, and taxpayers with a general overview of BRIM's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Office of the Chief Financial Officer at (304) 766-2646.

West Virginia Board of Risk and Insurance Management

Statements of Net Assets

	June 30 2009	June 30 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **19,532**	$ 19,310
Advance deposits with insurance company and trustee	**174,215**	158,436
Receivables:		
Premiums due from State agencies	**–**	789
Premiums due from other entities	**392**	394
Other	**626**	585
Less allowance for doubtful accounts	**(387)**	(701)
Net receivables	**631**	1,067
Restricted cash and cash equivalents	**12,649**	11,285
Restricted receivables:		
Premiums due from other entities	**372**	372
Total current assets	$ **207,399**	$ 190,470
Noncurrent assets:		
Investments	**82,811**	85,851
Restricted investments	**22,650**	23,474
Total noncurrent assets	**105,461**	109,325
Total assets	**312,860**	299,795
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	**48,650**	50,693
Unearned premiums	**7,235**	7,705
Agent commissions payable	**1,247**	1,621
Accrued expenses and other liabilities	**629**	559
Total current liabilities	**57,761**	60,578
Estimated unpaid claims and claims adjustment expense, net of current portion	**104,083**	111,535
Compensated absences	**58**	52
Total noncurrent liabilities	**104,141**	111,587
Total liabilities	**161,902**	172,165
Net assets:		
Restricted	**33,924**	33,634
Unrestricted	**117,034**	93,996
Net assets	$ **150,958**	$ 127,630

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2009	**2008**
	(In Thousands)	
Operating revenues		
Premiums	**$ 62,427**	$ 72,986
Less excess coverage/reinsurance premiums	**(5,944)**	(6,394)
Net operating revenues	**56,483**	66,592
Operating expenses		
Claims and claims adjustment expense	**36,604**	42,982
General and administrative	**3,894**	4,247
Total operating expenses	**40,498**	47,229
Operating income	**15,985**	19,363
Nonoperating revenues		
Investment income	**7,312**	10,512
Financing income	**31**	30
On behalf contributions	**–**	30
Net nonoperating revenues	**7,343**	10,572
Changes in net assets	**23,328**	29,935
Total net assets, beginning of year	**127,630**	97,547
Change in accounting principle for other postemployment benefits	**–**	148
Total net assets, beginning of year adjusted	**127,630**	97,695
Total net assets, end of year	**$ 150,958**	$ 127,630

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Years Ended June 30	
	2009	**2008**
	(In Thousands)	
Operating activities		
Receipts from customers	**$ 56,582**	$ 66,481
Payments to employees	**(1,292)**	(1,486)
Payments to suppliers	**(3,033)**	(2,909)
Payments to claimants	**(46,099)**	(40,318)
Deposits to advance deposit with insurance company and trustee	**(64,452)**	(81,277)
Withdrawals from advance deposit with insurance company and trustee	**48,672**	38,676
Net cash used in operating activities	**(9,622)**	(20,833)
Noncapital financing activities		
Financing earnings	**31**	30
Net cash provided by noncapital financing activities	**31**	30
Investing activities		
Purchase of investments	**(115,498)**	(31,883)
Sale of investments	**113,986**	35,346
Net investment earnings	**12,689**	14,852
Net cash provided by investing activities	**11,177**	18,315
Net increase (decrease) in cash and cash equivalents	**1,586**	(2,488)
Cash and cash equivalents, beginning of year	**30,595**	33,083
Cash and cash equivalents, end of year	**$ 32,181**	$ 30,595
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 19,532**	$ 19,310
Restricted cash and cash equivalents	**12,649**	11,285
	$ 32,181	$ 30,595

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	Years Ended June 30 2009	Years Ended June 30 2008
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities		
Operating income	$ **15,985**	$ 19,363
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in advanced deposits	**(15,779)**	(42,600)
Decrease in premiums receivable, net	**571**	847
(Decrease) increase in estimated liability for unpaid claims and claims adjustment expense	**(9,495)**	2,664
Decrease in other liabilities	**(432)**	(153)
Decrease in unearned premiums	**(472)**	(954)
Total adjustments	**(25,607)**	(40,196)
Net cash used in operating activities	$ **(9,622)**	$ (20,833)
Noncash activities		
Decrease in fair value of investments	$ **(5,377)**	$ (4,339)
On behalf contributions	$ **–**	$ 30

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements

June 30, 2009

1. General

The West Virginia Board of Risk and Insurance Management (BRIM) was established in 1957 to provide for the development of the State of West Virginia's (the State and primary government) property and liability self-insurance program. Approximately 146 State agencies participate in the program. Beginning in 1980, county boards of education were authorized to participate in the liability portion of this program, with 55 county boards currently participating in the program. In fiscal year 1987, Senate Bill No. 3 (SB3) was enacted, allowing local governmental entities and nonprofit organizations to participate in the entire program. There are approximately 1,000 such entities participating in the program. In 1982, legislation was also enacted requiring BRIM to establish and administer a coal mine subsidence reinsurance program which makes available to the general public dwelling insurance covering damage up to a specific maximum caused by the collapse of underground coal mines.

BRIM operates under the authority granted by the Legislature in Chapter 29, Article 12 and Chapter 33, Article 30 of the West Virginia Code and the provisions of Executive Order 12–86. BRIM is an agency of the State operating within the Department of Administration and is governed by a five-person board of directors appointed by the Governor. Accordingly, BRIM is reported as an enterprise fund of the State operating as a single business segment and is included in the State's Comprehensive Annual Financial Report (CAFR).

BRIM uses a "modified" paid retrospective rating plan for its liability insurance program. Under the current plan, BRIM pays a "premium" deposit to an insurance company to fund initial losses. As claims are reported, they are paid from the cash reserves established by the premium deposit. When paid losses exceed the amount of the "premium" deposit, BRIM pays the insurance company an additional "premium" deposit estimated to be sufficient to fund any estimated remaining claims and claims adjustment expenses expected to be paid during the ensuing 12-month period. These payments are calculated through retrospective rating adjustments that are made during the year. Therefore, the "premiums" paid by BRIM are advance deposits and BRIM is not indemnified by the insurance company for any losses. Under this plan, the insurance company is compensated for its claim-handling services by a fixed fee negotiated on a yearly basis.

From January 1, 1971 through June 30, 1976, the liability coverage provided by BRIM was limited to $25,000 per occurrence on general liability, automobile liability, and medical malpractice claims. From July 1, 1976 through June 30, 1980, the liability coverage provided by

1. General (continued)

BRIM was limited to $100,000 per occurrence. From July 1, 1982 through June 30, 1985, the liability coverage provided by BRIM was limited to $6,000,000 per occurrence. Since July 1, 1985, the liability coverage provided by BRIM is limited to $1,000,000 indemnity per occurrence. In addition, the county boards of education are covered by an excess insurance policy providing up to $5,000,000 of coverage in excess of the underlying $1,000,000 limit. These limits only apply to incur indemnity claim losses. BRIM pays all allocated loss adjustment expenses (ALAE), which are the costs incurred in the reporting, investigation, adjustment, defense, and settlement of claims that are attributable to a specific, individual claim.

Prior to July 1, 1990, BRIM retained the first $25,000 of loss per event on property insurance claims. Losses in excess of $25,000 per event were also retained within an annual aggregate limit. From July 1, 1990 through June 30, 1991, the exposure retained by BRIM was $1,000,000 per event. From July 1, 1991 through June 30, 1996, the exposure retained by BRIM was $2,000,000 per event. Since July 1, 1996, the exposure retained by BRIM is $1,000,000 per event. BRIM has obtained excess coverage, through insurance companies, covering losses in excess of $1,000,000 up to $200,000,000 per occurrence subject to various sublimits for particular types of claims as specified in the policy.

In 1985, the coal mine subsidence program was legislatively expanded to include all types of building structures, and the maximum amount of insurance available was increased from $50,000 to $75,000 per structure.

In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers (the House Bill 601 Program). On July 1, 2004, all physicians novated to the newly formed West Virginia Physicians' Mutual Insurance Company (WVPMIC) BRIM maintained the hospital and facilities in the House Bill 601 Program that did not novate to WVPMIC. However, all policies have been terminated as of June 30, 2004, and the program is in runoff mode only for existing clams and for any claims that may be submitted on any tail policies that were purchased.

In March 2004, the West Virginia Legislature passed House Bill 4740, creating a Patient Injury Compensation Fund. The purpose of this fund is to provide fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of previously enacted tort reforms. This fund provides relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several

1. General (continued)

liabilities. The capitalization of the fund comes from the State's tobacco settlement fund. The activity for this fund is not reflected in BRIM's financial statements. BRIM serves as third-party administrator for this fund and accordingly, the activity for this fund is reflected in the State's financial statements.

In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

The funding of the property and liability insurance premiums for the State agencies comes from direct premium assessments on those agencies. SB3 entities are charged a premium to participate in the program. Under the mine subsidence line of business, the ceding insurers pay BRIM a reinsurance premium.

Pursuant to the West Virginia Code, BRIM submits a detailed budgetary schedule of administrative expenses to the Secretary of the Department of Administration prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan. The budgetary schedule is prepared on a modified-cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP). Expenditures related to the general revenue appropriation amount if any are monitored by the State's budgetary review process in total on an unclassified basis. Each year's appropriation lapses at year-end. The remaining operations of BRIM are subject to a non-appropriated budgetary review process.

GAAP defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable or other organizations for which the nature and significance of their relationship with the State's financial statements would cause them to be misleading. BRIM has considered whether it has any component units as defined by GAAP and has determined that no such organizations meet the criteria set forth above.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Accounting

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

BRIM distinguishes operating revenues and expenses from nonoperating. Operating revenues and expenses generally result from providing services in connection with BRIM's principal ongoing operations. The principal operating revenues and expenses of BRIM relate to premium revenues and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract period. Net investment earnings and finance charges are reported as nonoperating revenues.

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. As permitted by the statement, BRIM has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

The financial statements of BRIM are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with GAAP.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of interest-earning deposits in certain investment pools maintained by the West Virginia Board of Treasury Investments (BTI). Such funds are available to BRIM with overnight notice. Interest income from these investments is prorated to BRIM at rates specified by the BTI based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool. The book carrying value of the amounts on deposit with the BTI, which approximate estimated fair value, was $29,567,000 and $27,026,000 at June 30, 2009 and 2008, respectively.

Restricted cash and cash equivalents are cash and cash equivalents that are to be used for specific lines of business (i.e., mine subsidence coverage provided to the general public and medical malpractice and general liability coverage provided to health care providers) based on restrictions provided in the State Code.

Advance Deposits With Insurance Company and Trustee

Advance deposits with the insurance company consist of monies on deposit that are utilized to fund claims and claims adjustment expenses as they are paid by the insurance company.

Beginning in fiscal year 2006, BRIM deposited monies with the Bank of New York (BNY), as trustee, to hold as advance deposits in an escrow account for BRIM liability claims with loss dates occurring after June 30, 2005. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment grade fixed income securities that are identified as "qualified assets" in the escrow agreement. The funds held in escrow, together with their earnings, will be used to fund the payment of the claims and claims adjustment expenses related to these liability claims. As escrow agent, BNY periodically transfers monies from the escrow account to the insurance company administering these claims in order to reimburse the insurance company for payments that they have issued on these claims and claims adjustment expenses on BRIM's behalf.

2. Summary of Significant Accounting Policies (continued)

Investments

BRIM invests in certain WVIMB investment pools. Some of these pools invest in longer-term securities and are subject to market fluctuation because of changes in interest rates. Investments are reported by WVIMB at fair value and are accounted for by BRIM accordingly, with changes in the fair value included in investment income. Income from these investments is prorated to BRIM at rates specified by WVIMB based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool.

Restricted investments are investments that are to be used for specific lines of business (i.e., mine subsidence coverage provided to the general public and medical malpractice and general liability coverage provided to health care providers) based on restrictions provided in the State Code.

Compensated Absences

Employees fully vest in all earned but unused annual leave, and BRIM accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer-paid premiums for postemployment health care coverage through the West Virginia Retiree Health Benefit Trust Fund (RHBT) or be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System (PERS).

Unpaid Claims and Claims Adjustment Expense

Utilizing an external actuary, management establishes the unpaid claims and claims adjustment expense liability based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but not settled and of claims that have been incurred but not reported (IBNR). Such estimates are based on industry statistical loss reserve information as well as BRIM historical data, including case-basis estimates of losses reported, actuarial projections of loss development of IBNR claims, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses (and estimates of expected salvage and subrogation receipts are deducted from the estimated liability). The length of time for which such costs must be estimated varies depending on the coverage involved. In the event a reinsurer is unable financially to satisfy an obligation, BRIM is responsible for such liability.

2. Summary of Significant Accounting Policies (continued)

Management believes the estimate for unpaid claims and claims adjustment expense is a reasonable best estimate of BRIM's ultimate losses and loss adjustment expenses to be incurred to discharge BRIM's obligations. However, because actual claims costs depend on such complex factors as actual outcomes versus industry statistical information utilized in the estimation process, inflation, changes in doctrines of legal liability, and damage awards, the process used in computing estimates of claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability and medical malpractice. For instance, medical malpractice claims have a long payout period and claims may not be known for several years. The exposures written under this program have not yet developed sufficient experience to be evaluated based on their own merit. Accordingly, BRIM's actual incurred losses and loss adjustment expenses may vary significantly from the estimated amounts reflected in BRIM's financial statements. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors; such adjustments are included in current operations. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. The claims and claims adjustment expense category on the statements of revenues, expenses, and changes in net assets includes estimated incurred claim costs, allocated loss adjustment expenses, and unallocated claims adjustment expenses.

Premium deficiency is defined as the amount by which expected claims costs (including IBNR claims), and all expected claims adjustment expenses exceed related unearned premiums. BRIM has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income, using an assumed 4% discount rate.

Receivables and Premium Income

Receivables represent the amount outstanding for premiums from the insured covered under BRIM's insurance program. Management maintains an allowance for doubtful accounts to reserve for estimated losses based on the length of time the amount has been past due.

Unearned Premiums

Unearned premiums included premium revenues collected for future periods. These revenues will be recognized in the operating periods in which they are earned.

2. Summary of Significant Accounting Policies (continued)

Restricted Net Assets

Restricted net assets are net assets that are to be used for the House Bill 601 Program and mine subsidence coverage provided to the general public based on restrictions provided in the State Code. When an expense is incurred for which both restricted and unrestricted net assets are available, BRIM first utilizes restricted net assets for such purpose.

3. Deposit and Investment Risk Disclosures

BRIM is mandated by statute to have their cash and investments managed by the WVIMB and BTI. However, BRIM currently does not have specific policies addressing limitations on specific risk types, such as credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Cash Equivalents

WV Money Market Pool (formerly the Cash Liquidity Pool)

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

3. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the weighted average credit ratings of the cash liquidity pool's investments (in thousands):

	June 30, 2009				June 30, 2008			
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Moody's	S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 592,479	23.05%	P1	A-1	$ 658,879	27.94%
Corporate bonds and notes	Aaa	AAA	10,000	0.39	Aaa	AAA	40,000	1.70
	Aa3	AA	15,503	0.60	Aa3	AA	20,000	0.85
	Aa2	AA	10,000	0.39	Aa2	A	27,000	1.14
	Aa1	AA	7,000	0.27	Aa1	AA	71,000	3.01
	A1	AA	19,309	0.75	–	–	–	–
	A1	A	12,000	0.47	–	–	–	–
			73,812	2.87			158,000	6.70
U.S. agency bonds	Aaa	AAA	294,019	11.44	Aaa	AAA	254,019	10.77
U.S. Treasury bills	Aaa	AAA	483,714	18.82	Aaa	AAA	406,426	17.23
Negotiable certificates of deposit	P1	A-1	128,402	5.00	P1	A-1	147,001	6.23
U.S. agency discount notes	P1	A-1	635,602	24.73	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,223	5.84	Aaa	AAA	150,058	6.36
Repurchase agreements								
U.S. Treasury notes	Aaa	AAA	165,110	6.43	Aaa	AAA	62,265	2.64
U.S. agency notes	Aaa	AAA	46,900	1.82	Aaa	AAA	308,898	13.10
			212,010	8.25			371,163	15.74
			$ 2,570,261	100.00%			$ 2,358,470	100.00%

Concentration of Credit Risk

West Virginia statutes prohibit the WV Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2009 and 2008, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2009 and 2008, the WV Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the BTI. Securities lending collateral is invested in the lending agent's money market fund in BTI's name.

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The overall weighted average maturity (WAM) 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. The following table provides the WAM for the various asset types in the WV Money Market Pool (carrying values - in thousands):

	June 30, 2009		June 30, 2008	
Investment Type	**Carrying Value**	**WAM Days**	**Carrying Value**	**WAM Days**
Repurchase agreements	**$ 212,010**	**1**	$ 371,163	1
U.S. Treasury bills	**483,714**	**69**	406,426	31
Commercial paper	**592,479**	**32**	658,879	29
Certificates of deposit	**128,402**	**56**	147,001	95
U.S. agency discount notes	**635,602**	**57**	212,924	84
Corporate notes	**73,812**	**38**	158,000	21
U.S. agency bonds/notes	**294,019**	**70**	254,019	111
Money market funds	**150,223**	**1**	150,058	1
Total rated investments	**$ 2,570,261**	**47**	$ 2,358,470	40

BRIM's amount invested in the WV Money Market Pool of $34,943,000, included in cash and cash equivalents, at June 30, 2009, and $32,339,000 at June 30, 2008, represents approximately 1.4%, respectively, of total investments in this pool.

Foreign Currency Risk

None of the WV Money Market Pool holds interest in foreign currency or interests valued in foreign currency.

3. Deposit and Investment Risk Disclosures (continued)

Advanced Deposits

Insurance Company and Trustee

Beginning in fiscal year 2006, BRIM deposited monies with the Bank of New York (BNY), as trustee, to hold as advance deposits in an escrow account for BRIM liability claims with loss dates occurring after June 30, 2005. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment grade fixed income securities that are identified as "qualified assets" in the escrow agreement.

The following table provides information on the weighted average credit ratings of the cash liquidity pool's investments (in thousands):

	June 30, 2009			
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**
U.S. Treasury bonds			$	
Agency-backed corporate				
U.S. Agency bonds				
Corporate bonds				
Money market funds				
			$	

Concentration of Credit Risk

Custodial Credit Risk

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The following table provides the WAM for the various asset types in the ________________ (carrying values - in thousands):

	June 30, 2009	
Investment Type	**Carrying Value**	**WAM Days**
Repurchase agreements	$	
U.S. Treasury bonds		
Agency-backed corporate		
Corporate bonds		
U.S. agency bonds/notes		
Money market funds		
Total rated investments	$	

Foreign Currency Risk

None of the advanced deposits include holds interest in foreign currency or interests valued in foreign currency.

Investments

Board of Risk and Insurance Management Fund

This fund was specifically designed for BRIM by WVIMB based on BRIM's unique cash flow needs. BRIM is the only State agency participating in this fund and owns 100% of the total assets in the fund. The Fund invests, along with other agencies, in the following WVIMB investment pools: Domestic Large Cap Equity pool, Domestic Non-Large Cap Equity pool, International Nonqualified Equity pool, International Equity pool, Total Return Fixed Income pool, Core Fixed Income pool, Short-term Fixed Income pool and the Hedge Fund.

3. Deposit and Investment Risk Disclosures (continued)

Investment Objectives

This fund's investment objective is to achieve a total rate of return of at least 4.9% per annum, net of fees.

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB has adopted the following broad asset allocation guidelines for the assets managed for the Board of Risk and Insurance Management Fund. (Policy targets have been established on a market value basis.)

Asset Class	Policy Target
Domestic large cap equity	10%
International equity	10
Total equity	**20**
Domestic fixed income	**60**
Hedge fund	**20**
Cash and cash equivalents	0

3. Deposit and Investment Risk Disclosures (continued)

Asset Value

Investments at cost and as reported at fair value (actual asset allocation) are summarized as follows at June 30 (in thousands):

	2009		2008	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Domestic large cap equity	**$ 10,023**	**$ 8,892**	$ 9,662	$ 10,725
Domestic non-large cap equity	**2,936**	**1,591**	2,695	1,792
International equity	**5,815**	**7,503**	3,260	6,473
International nonqualified	**3,424**	**3,797**	1,298	1,970
Total return fixed income	**41,755**	**44,572**	51,619	53,775
Fixed income cash liquidity pool	**-**	**-**	30,440	34,585
Core fixed income	**17,888**	**18,450**	-	-
Hedge fund	**21,892**	**20,655**	-	-
Other	**1**	**1**	7	5
	$ 103,734	**$ 105,461**	$ 98,981	$ 109,325

Investment income is comprised of the following for the years ended June 30 (in thousands).

	2009	2008
Investment income:		
Interest income including realized gains/losses on sale of securities	**$ 12,689**	$ 14,851
Unrealized (loss) gain on investments	**(5,377)**	(4,339)
Total investment income	**$ 7,312**	$ 10,512

WVIMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals.

3. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

Domestic Large Cap Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2009 and 2008, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the large cap domestic pool of $8,892,000 and $10,725,000 at June 30, 2009 and 2008, respectively, represents approximately 0.5% and 0.6% of total investments in this pool.

Domestic Non-Large Cap Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2009 and 2008, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the non-large cap domestic pool of $1,591,000 and $1,792,000 at June 30, 2009 and 2008, respectively, represents approximately 0.5% and 0.3% of total investments in this pool.

3. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies are as follows:

	June 30, 2009			June 30, 2008		
Currency	**Equity Securities**	**Cash**	**Total**	**Equity Securities**	**Cash**	**Total**
Australian dollar	$ 45,295,313	$ 187,926	$ 45,483,239	$ 56,458,401	$ 1,147,727	$ 57,606,128
Brazil cruzeiros real	76,243,266	1,318,077	77,561,343	78,980,550	377,270	79,357,820
British pound	175,318,942	1,551,666	176,870,608	169,390,722	2,625,082	172,015,804
Canadian dollar	43,761,183	109,535	43,870,718	87,262,255	1,994,596	89,256,851
Czech Koruna	7,234,731	135	7,234,866	1,519,907	–	1,519,907
Danish krone	10,935,831	33,982	10,969,813	5,533,777	99,697	5,633,474
Euro	266,768,796	6,226,567	272,995,363	338,300,401	1,682,586	339,982,987
Hong Kong dollar	115,552,388	304,416	115,856,804	91,548,567	2,012,170	93,560,737
Hungarian forint	11,566,434	781	11,567,215	18,046,560	182,258	18,228,818
Indian rupee	–	–	–	4,653,903	–	4,653,903
Indonesian rupiah	2,474,340	–	2,474,340	10,703,375	–	10,703,375
Israeli shekel	13,692,033	81	13,692,114	11,519,751	54,371	11,574,122
Japanese yen	214,493,385	2,000,670	216,494,055	190,163,595	4,773,663	194,937,258
Malaysian ringgit	8,765,540	25,190	8,790,730	10,536,586	1,212,918	11,749,504
Mexican new peso	20,204,832	54,161	20,258,993	23,344,620	406,186	23,750,806
New Taiwan dollar	44,242,681	29,702	44,272,383	73,448,408	363,885	73,812,293
New Zealand dollar	1,750,119	404,401	2,154,520	2,281,221	35,031	2,316,251
Norwegian krone	9,140,371	127,263	9,267,635	27,781,461	(707,346)	27,074,115
Pakistani Rupee	1,371,114	–	1,371,114	2,159,612	–	2,159,612
Philippine peso	4,738,490	–	4,738,490	2,637,913	–	2,637,913
Polish Zloty	4,768,257	39	4,768,296	3,909,848	230,158	4,140,006
Singapore dollar	31,364,188	238,905	31,603,093	40,965,990	288,581	41,254,571
South African rand	20,492,344	55,109	20,547,453	39,201,393	43,223	39,244,616
South Korean won	75,285,153	527,742	75,812,895	120,845,929	11,380	120,857,309
Swedish krona	19,034,030	75,507	19,109,537	26,805,371	406,838	27,212,209
Swiss franc	58,766,408	928,122	59,694,530	67,886,106	1,186,931	69,073,037
Thailand baht	–	2,202	2,202	11,858,415	2,244	11,860,659
Turkish Lira	30,584,716	42,029	30,626,745	23,039,547	–	23,039,547
Total	$ 1,313,844,886	$ 14,244,208	$1,328,089,094	$ 1,540,784,184	$ 18,429,449	$ 1,559,213,635

This table excludes securities held by the pool that are denominated in U.S. dollars. The market value of these U.S. dollar denominated securities is $181,239,129 and $131,021,000 at June 30, 2009 and 2008, respectively. BRIM's amount invested in the international equity pool of $7,503,000 and $6,473,000 at June 30, 2009 and 2008, respectively, represents approximately 0.5% and 0.4% of total investments in this pool.

3. Deposit and Investment Risk Disclosures (continued)

International Nonqualified Pool

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2009 and 2008, was $101,246,000 and $57,888,000, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. BRIM's amount invested in the international nonqualified pool of $3,797,000 and $1,970,000 at June 30, 2009 and 2008, respectively, represents approximately 3.8% and 3.4% of total investments in this pool.

Total Return Fixed Income Pool

Credit Risk

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

	June 30, 2009				June 30, 2008			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Baa	BBB	$ 466,052,257	17.7%	Baa	BBB	$ 609,696,835	22.0%
U.S. Treasury bonds and notes	Aaa	AAA	1,678,244	0.1	Aaa	AAA	76,318,725	2.7
U.S. Treasury inflation protection bonds	Aaa	AAA	74,631,563	2.8	–	–	–	–
Corporate asset-backed securities	Aa	AA	622,399	0.0	Aaa	AAA	137,308,217	5.0
Corporate collateralized mortgage obligations	Baa	AA	91,081,767	3.5	–	–	–	–
Corporate preferred securities	C	C	965,455	0.0	–	–	–	–
Agency mortgage-backed securities	Aaa	AAA	531,284,382	20.2	Aaa	AAA	234,846,187	8.5
Agency bonds	–	–	–	–	Aaa	AAA	5,282,195	0.2
Agency discount notes	–	–	–	–	P1	A-1	17,537,793	0.6
Agency notes	Aa	AA	3,866,877	0.1	–	–	–	–
Agency collateralized mortgage obligations	Aaa	AAA	465,532	0.0	–	–	–	–
Money market funds	Aaa	AAA	472,292,326	17.9	Aaa	AAA	135,041,247	4.9
Total rated investments			$ 1,642,940,802	62.3%			$ 1,216,031,199	43.9%

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2009, unrated securities include commingled investment pools of $987,106,348 swaps, options and swaptions valued at $(10,205,602), future contracts valued at $6,356,507, foreign currency contracts valued at $(610,756) and cash of $16,705,447 pledged to brokers as collateral. These unrated securities represent 37.7% of the fair value of the pool's investments. For June 30, 2008, unrated securities include commingled investment pools of $1,549,051,012 and an interest rate swap valued at $(4,248,293) and cash of $11,984,018 pledged to brokers as collateral.

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2009 and 2008, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2009 and 2008, the Total Return Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's money market fund.

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

WVIMB monitors interest rate risk of the Total Return Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the fixed income pools:

Investment Type	June 30, 2009 Fair Value	June 30, 2009 Modified Duration (years)	June 30, 2008 Fair Value	June 30, 2008 Modified Duration (years)
Commingled investment pools	$ 987,105,348	2.5	$ 1,549,051,012	3.3
Corporate notes and bonds	466,052,257	5.7	609,696,835	6.2
U.S. Treasury notes and bonds	1,678,244	16.4	76,318,725	7.9
U.S. Treasury inflation protection bonds	74,631,563	13.1	–	–
Corporate asset-backed securities	622,399	2.5	137,308,217	7.0
Corporate collateralized mortgage obligations	91,081,767	5.1	–	–
Agency mortgage-backed securities	531,284,382	9.6	234,846,187	10.8
Agency bonds	3,866,877	2.8	5,282,195	8.5
Agency discount notes	–	–	17,537,793	0.5
Agency collateralized mortgage obligations	465,532	1.0	–	–
Money market fund	472,292,326	0.0	135,041,247	0.0
Total assets	$ 2,629,080,695	5.4	$ 2,765,082,211	5.4

The Total Return Fixed Income pool invests in commercial and residential mortgage-backed, asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2009 and 2008, the Total Return Fixed Income pool held $623,449,368 and $372,154,404, respectively, of these securities. This represents approximately 24% and 13% of the value of the fixed income pools.

BRIM's amount invested in the Total Return Fixed Income pool of $44,572,000 and $53,775,000 at June 30, 2009 and 2008, respectively, represents approximately 1.7% and 1.9% of total investments in this pool.

3. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

None of the securities held by the Total Return Fixed Income pool are exposed to foreign currency risk. However, the pool does have foreign exchange forward contracts. Additionally, the pool has indirect exposure to foreign currency risk through its ownership interest in certain of the commingled investment pools. Approximately $176,856,000, or 18%, of the commingled investment pools hold substantially all of their investments in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2009, the WVIMB was in compliance with this limitation.

Core Fixed Income Pool

WVIMB limits the exposure to credit risk in the Core Fixed Income pool by maintaining as least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the asset types in the core fixed income pool.

	June 30, 2009			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Corporate bonds and notes	A	A	$ 41,035,802	10.1%
U.S. Treasury bonds and notes	Aaa	AAA	69,633,643	17.2
Corporate asset-backed securities	Aaa	AAA	2,191,003	0.5
Corporate collateralized mortgage obligations	Baa	AA	25,367,921	6.3
Agency mortgage-backed securities	Aaa	AAA	117,952,526	29.1
Agency collateralized mortgage obligations	Aaa	AAA	134,378,380	33.1
Money market funds	Aaa	AAA	15,209,068	0.5
Total rated investments			$ 405,768,343	100.00

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2009, the Core Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

3. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

At June 30, 2009, the Core Fixed Income pool held no securities that were subject to custodial credit risk. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

Interest Rate Risk

WVIMB monitors interest rate risk of the Core Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the core fixed income pools:

	June 30, 2009	
Investment Type	**Fair Value**	**Modified Duration (years)**
Corporate notes and bonds	$ 41,035,802	5.0
U.S. Treasury notes and bonds	69,633,643	6.4
Corporate asset-backed securities	2,191,003	1.9
Corporate collateralized mortgage obligations	25,367,921	4.1
Agency mortgage-backed securities	117,952,526	8.9
Agency collateralized mortgage obligations	134,378,380	3.4
Money market fund	15,209,068	0.0
Total assets	$ 405,768,343	5.4

The Core Fixed Income pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2009, the Core Fixed Income pool held $279,883,830 of these securities. This represents approximately 69% of the value of the fixed income pools.

3. Deposit and Investment Risk Disclosures (continued)

BRIM's amount invested in the Core Fixed Income pool of $18,450,000 at June 30, 2009, represents approximately 5% of total investments in this pool.

Foreign Currency Risk

None of the securities held by the Core Fixed Income pool are exposed to foreign currency risk.

Hedge Fund

The Hedge Fund holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. The pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. At June 30, 2009, approximately $456,938,000 or 41%, of the market value of the funds were held in foreign currencies. BRIM's amount invested in the Hedge Fund of $20,655,000 at June 30, 2009, represents approximately 1.9% total investments in this pool.

Fixed Nonqualified Income Pool

During the fiscal year the WVIMB liquidated the Fixed Nonqualified Income pool. The pool held positions of institutional mutual funds with a combined value of $474,561,035 at June 30, 2008, that invested in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities was 5.6 years at June 30, 2008. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

BRIM's amount invested in the Fixed Income Nonqualified pool of $34,585,000 at June 30, 2008, represents approximately 7.3% of total investments in this pool.

4. Unpaid Claims and Claims Adjustment Expense Liability

BRIM establishes an estimated liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in the estimated liability for the fiscal and policy years ended June 30:

	2009	**2008**
	(In Thousands)	
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 162,228**	$ 159,564
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**55,894**	57,246
Decrease in provision for insured events of prior years	**19,290**	14,264
Total incurred claims and claims adjustment expense	**36,604**	42,982
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**9,753**	8,352
Claims and claims adjustment expense attributable to insured events of prior years	**36,346**	31,966
Total payments	**46,099**	40,318
Total unpaid claims and claims adjustment expense liability at end of year	**$ 152,733**	$ 162,228

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2009 and 2008 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net assets of approximately $13,861,000 and $15,511,000 for fiscal years 2009 and 2008, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

5. Employee Benefit Plans

Pension Benefits

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

Covered employees are required to contribute 4.5% of their salary to PERS. BRIM is required to contribute 10.5% of covered employees' salaries to PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. As noted below, BRIM contributed the proper, required amounts. BRIM and employee contributions for the three years ended June 30 are as follows:

	2009	2008	2007
BRIM contributions (10.5%)	**$ 103,177**	$ 103,252	$ 100,981
Employee contributions (4.5%)	**44,219**	44,250	43,277
Total contributions	**$ 147,396**	$ 147,502	$ 144,258

The Consolidated Public Retirement Board (CPRB) administers PERS under the direction of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor. CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from the Consolidated Public Retirement Board, 4101 MacCorkle Avenue, South East, Charleston, West Virginia 25304.

5. Employee Benefit Plans (continued)

Other Postemployment Benefits

BRIM participates in a cost-sharing multiemployer defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPB) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, 601 57th Street, SE, Suite 2, Charleston West Virginia 25304.

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce their future insurance premiums paid to RHBT. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for BRIM. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

Beginning July 1, 2008, BRIM adopted GASB *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) which provides guidance on all aspects of other postemployment benefit reporting by employers. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) (including health care and life insurance) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The GASB statement is based on the premise that the "costs" of employee services should be reported during the periods when the services are rendered. For "employer" OPEB reporting, the State and BRIM report "expense" on an accrual basis in the amount of the "annual required contribution" and a "liability" for the amount of the "annual required contribution" that was not actually paid.

5. Employee Benefit Plans (continued)

Historically, BRIM recorded compensated absences under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences,* and recorded a liability for the conversion of sick leave into OPEB health care benefits, which was included as part of the compensated absences liability. Under GASB 45, the conversion of sick leave into OPEB health care benefits is now required to be accounted for as part of the OPEB obligation. In conjunction with the adoption of GASB 45, which was adopted prospectively, BRIM adjusted the net asset balance as of July 1, 2008, to account for the effect of this change in accounting principle by reducing the OPEB portion of the compensated absences liability recorded under the old methodology to zero.

	(In Thousands)
Net assets balance as reported June 30, 2008	$ 97,547
Cumulative effect of change in accounting principle for other postemployment benefits	148
Net asset balance as adjusted July 1, 2008	$ 97,695

Legislation requires the RHBT to determine through an actuarial study, the Annual Required Contribution (ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC is allocated to respective cost-sharing employers including BRIM who are required by law to fund at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. Based on the actuarial study completed, the annual required contribution rates were determined for the fiscal year ended June 30, 2009. BRIM's OPEB expense for fiscal years 2009 and 2008 were approximately $91,000 and $114,000, respectively of which approximately $53,000 and $35,000 remained unpaid and recorded in accrued expenses and other liabilities in the statements of net assets. BRIM's OPEB contribution for fiscal year 2009 and 2008 was approximately $_____ and $_____ at June 30, 2009 and 2008, respectively. The State on BRIM's behalf paid $30,000 towards the ARC in fiscal year 2008. BRIM's policy is to fund at least the minimum annual premier component of the ARC. Prior to the adoption of GASB 45, the benefit was funded on a pay-as-you-go basis. There are currently 23 employees eligible to receive such benefits.

6. Lease Arrangement

In September 2006, the State renewed the lease arrangement on behalf of BRIM for office space occupied by BRIM with a monthly lease payment of $9,876 and a term beginning on February 1, 2007, and ending on January 31, 2012. On July 1, 2006, BRIM entered into a vehicle lease arrangement with the Department of Administration, Purchasing Division with a monthly lease payment of $1,000. The lease includes two Jeep Liberty vehicles for a term of five years beginning on July 1, 2006 and ending on June 30, 2011.

Operating lease expense approximated $131,000 for the years ended June 30, 2009 and 2008, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

2010	$131,000
2011	$131,000
2012	$69,000

7. Transactions With Primary Government and Component Units

Premium revenues derived from billings to State entities funded with special revenue funds and component units of the primary government approximated $31,596,000 and $36,258,000 for the years ended June 30, 2009 and 2008, respectively.

BRIM is required by Senate Bill Number 1002 to remit amounts equal to the gross premium tax attributable to premiums collected by BRIM. These amounts are to be placed in a separate account known as "the Premium Tax Savings Fund" (the Fund) maintained by the State Treasurer. Amounts deposited by BRIM into the Fund approximated $2,573,000 and $2,777,000 for the years ended June 30, 2009 and 2008, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

8. Premium Tax Surcharge Contingency

Historically, BRIM paid premium tax surcharges to insurance carriers. During 2007, the West Virginia Insurance Commissioner provided information to management that BRIM may be exempt from paying these premium tax surcharges and may be able to seek refunds of amounts previously paid to carriers and avoid paying such surcharges in the future.

Management successfully recovered $6,288,000, including estimated interest, in 2009 from one carrier and anticipates recovering an additional $244,000, including estimated interest, from two other carriers

9. Reinsurance

BRIM has entered into two reinsurance agreements for excess coverage with unrelated insurance companies wherein the company assumes the liability over BRIM's limit for a ceded premium. BRIM obtains an excess policy from the commercial market which gives boards of education a liability limit of up to $5,000,000 in excess of BRIM's $1,000,000 self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM's $1,000,000 self-insured limit. These reinsurance agreements have been accounted for as a transfer of risk in the accompanying financial statements. However, BRIM is not relieved of its primary obligation to the insureds in the reinsurance transaction. BRIM did not have any reinsurance recoveries at June 30, 2009. At June 30, 2008, BRIM recorded reinsurance recoverables from these reinsurers totaling $95,000.

10. Risk Management

BRIM 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; medical liabilities; and natural disasters.

Health insurance coverage for BRIM's employees is obtained through its participation in health insurance coverage offered by the West Virginia Public Employees Insurance Agency (PEIA). PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State and various related State and non-State agencies. BRIM had coverage through December 31, 2005, for job-related injuries through its participation in the West Virginia Workers' Compensation Fund, a public entity risk pool. Effective January 1, 2006, coverage was moved to Brickstreet Insurance as required by Senate Bill 1004. Furthermore, BRIM is a participant in the self-insured public entity risk pool it administers. Coverage is in the amount of $1,000,000 per occurrence for general liability and property damage.

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.

Required Supplemental Schedules

West Virginia Board of Risk and Insurance Management

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how BRIM's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and othe expenses assumed by BRIM as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's premium revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of BRIM including overhead and unallocated claims expense not allocable t individual claims. (3) This line shows BRIM's incurred claims and claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which th event that triggered coverage under the contract occurred (called policy year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years fo each policy year. (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each year. (6) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existin information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated incurred claims amount to the amour 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, th correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. Th columns of the table show data for successive policy years.

	Fiscal and Policy Year Ended June 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
			(In Thousands)							
1) Premiums and investment revenues										
Earned	$ 48,437	$ 53,828	$ 56,992	$ 81,450	$ 110,279	$ 95,336	$ 89,690	$ 98,270	$ 83,498	$ 69,739
Ceded	1,553	1,629	1,866	3,126	3,801	3,912	4,145	6,151	6,394	5,944
Net earned	46,884	52,199	55,126	78,324	106,478	91,424	85,545	92,119	77,104	63,795
2) Unallocated expenses, including administrativ fees paid to third-party claims administrator	8,590	6,471	7,315	11,168	14,332	8,301	8,894	8,536	8,045	7,840
3) Estimated incurred claims and claim adjustment expense, end of policy year:										
Incurred	47,920	46,867	60,515	83,642	94,279	65,674	58,491	59,678	59,246	56,194
Ceded	364	360	783	577	597	5	172	3,597	2,000	300
Net incurred	47,556	46,507	59,732	83,065	93,682	65,669	58,319	56,081	57,246	55,894
4) Paid (cumulative) claims and claim adjustment expense as of:										
End of policy year	10,068	8,547	11,077	11,746	13,799	9,134	10,097	12,416	8,352	9,753
One year later	16,859	15,168	14,834	25,194	55,414	16,901	17,547	16,942	18,097	
Two years later	24,900	20,337	24,366	50,292	61,987	25,283	23,291	24,345		
Three years later	37,110	28,352	35,464	56,354	72,727	33,505	31,901			
Four years later	41,278	35,596	43,356	59,777	78,617	37,904				
Five years later	47,658	37,884	46,518	62,406	81,861					
Six years later	50,474	39,585	49,116	63,191						
Seven years later	51,290	40,344	51,188							
Eight years later	51,728	40,789								
Nine years later	53,138									
5) Reestimated ceded claims and expenses	364	360	783	577	597	5	172	–	–	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	47,556	46,507	59,732	83,065	93,682	65,669	58,319	56,081	57,246	55,894
One year later	50,810	49,612	58,141	80,739	93,171	61,419	51,183	53,924	57,108	
Two years later	53,519	48,108	56,755	79,646	91,136	56,023	47,726	48,330		
Three years later	53,961	44,027	58,004	69,595	90,453	52,893	45,490			
Four years later	55,116	45,572	55,443	65,434	87,424	50,179				
Five years later	55,728	43,336	53,627	62,177	86,199					
Six years later	54,785	43,233	54,784	60,797						
Seven years later	53,473	42,893	53,740							
Eight years later	53,929	42,152								
Nine years later	53,718									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expens from end of policy year	6,162	(4,355)	(5,992)	(22,268)	(7,483)	(15,490)	(12,829)	(7,751)	(138)	–

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

West Virginia Board of Risk and Insurance Management

Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (Unaudited)

The table below presents the changes in unpaid claims and claims adjustment expense liability for BRIM's lines of business.

	Fiscal and Policy Year Ended June 30									
	2009					2008				
	Liability	Property	Mine Subsidence	House Bill 601	Total	Liability	Property	Mine Subsidence	House Bill 601	Total
	(In Thousands)									
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	$ 158,985	$ 2,469	$ 639	$ 135	$ 162,228	$ 156,121	$ 2,099	$ 983	$ 361	$ 159,564
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	49,039	6,068	787	–	55,894	53,910	2,806	530	–	57,246
(Decrease) increase in provision for insured events of prior fiscal years	(18,090)	(1,324)	172	(48)	(19,290)	(12,350)	(1,067)	(692)	(155)	(14,264)
Total incurred claims and claims adjustment expense	30,949	4,744	959	(48)	36,604	41,560	1,739	(162)	(155)	42,982
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	8,095	1,561	97	–	9,753	7,169	1,108	75	–	8,352
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	35,989	(202)	508	51	36,346	31,527	261	107	71	31,966
Total claims and claims adjustment expense payments	44,084	1,359	605	51	46,099	38,696	1,369	182	71	40,318
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	$ 145,850	$ 5,854	$ 993	$ 36	$ 152,733	$ 158,985	$ 2,469	$ 639	$ 135	$ 162,228

Other Financial Information

West Virginia Board of Risk and Insurance Management

Combining Statement of Net Assets

June 30, 2009
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 19,532	$ –	$ –	$ 19,532
Advance deposits with carrier/trustee	174,215	–	–	174,215
Receivables, net	631	–	–	631
Restricted cash and cash equivalents	–	7,391	5,258	12,649
Restricted receivables, net	–	372	–	372
Total current assets	194,378	7,763	5,258	207,399
Noncurrent assets:				
Investments	82,811	–	–	82,811
Restricted investments	–	22,650	–	22,650
Total assets	277,189	30,413	5,258	312,860
Liabilities				
Current liabilities:				
Estimated unpaid claims and claims adjustment expense	47,899	751	–	48,650
Unearned revenue	6,530	705	–	7,235
Agents commissions payable	1,247	–	–	1,247
Accrued expenses and other liabilities	626	3	–	629
Interprogram (payables) receivables	(9)	9	–	–
Total current liabilities	56,293	1,468	–	57,761
Noncurrent liabilities:				
Estimated claims and claims adjustment expense, noncurrent	103,805	242	36	104,083
Compensated absences	57	1	–	58
Total noncurrent liabilities	103,862	243	36	104,141
Total liabilities	160,155	1,711	36	161,902
Net assets				
Restricted	–	28,702	5,222	33,924
Unrestricted	117,034	–	–	117,034
Net assets	$117,034	$ 28,702	$ 5,222	$150,958

West Virginia Board of Risk and Insurance Management

Combining Statement of Revenues, Expenses, and Changes in Net Assets

June 30, 2009
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Operating revenues				
Premiums	$ 60,498	$ 1,929	$ –	$ 62,427
Less excess coverage/reinsurance premiums	(5,944)	–	–	(5,944)
Total operating revenues	54,554	1,929	–	56,483
Operating expenses				
Claims and claims adjustment expense	35,693	959	(48)	36,604
General and administrative expense	3,834	58	2	3,894
Total operating expenses	39,527	1,017	(46)	40,498
Operating income	15,027	912	46	15,985
Nonoperating revenues (expenses)				
Investment income	8,011	(759)	60	7,312
Finance income	–	–	31	31
Net nonoperating revenues	8,011	(759)	91	7,343
Changes in net assets	$ 23,038	$ 153	$ 137	$ 23,328

West Virginia Board of Risk and Insurance Management

Deposits Disclosure

Form 7

June 30, 2009
(In Thousands)

	Carrying Amount	
Cash with Treasurer	$ 2,614	(1)

(1) Agrees to audited statement of cash flows as follows:

Cash with Treasurer	$ 2,614	(2)
Cash equivalents with BTI	29,567	(2)
	$ 32,181	(3)

(2) Agrees to Form 8-A.

(3) Agrees to audited statement of cash flows.

West Virginia Board of Risk and Insurance Management

Investments Disclosure

Form 8

June 30, 2009
(In Thousands)

Investment Pool	Amount Unrestricted		Amount Restricted		Amount Reported		Fair Value
BTI and WVIMB Investment Pools:							
Cash liquidity	$ 17,691		$ 11,876	(1)	$ 29,567		$ 29,567
Short-term	82,811	(1)	22,650	(1)	105,461		105,461
Total investments	$ 100,502	(1)	$ 34,526		$ 135,028	(3)	$ 135,028

(1) Agrees to audited statement of net assets as follows:				
Investments with BTI and WVIMB	$ 100,502		$ 34,526	
Less investments classified as cash equivalents	17,691		11,876	
Total investments	$ 82,811	(2)	$ 22,650	(2)

(2) Agrees to audited statement of net assets.

(3) Agrees to Form 8-A.

West Virginia Board of Risk and Insurance Management

Deposits and Investments Disclosure

Form 8-A

June 30, 2009
(In Thousands)

Reconciliation of cash and cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnotes:

Deposits:		
Cash and cash equivalents as reported:		
Noncurrent – restricted	$ 12,649	(1)
Unrestricted	19,532	(1)
Total cash and cash equivalents	32,181	
Less investments disclosed as cash equivalents	29,567	(2)
Carrying amount of deposits as disclosed on Form 7	$ 2,614	(2)
Investments:		
Investments as reported:		
Noncurrent – restricted	$ 22,650	(1)
Noncurrent – unrestricted	82,811	(1)
Total investments	105,461	
Add investments disclosed as cash equivalents	29,567	(2)
Carrying value of investments as disclosed on Form 8	$ 135,028	

(1) Agrees to audited statement of net assets.

(2) Agrees to Form 7.

West Virginia Board of Risk and Insurance Management

Schedule of Receivables (Other Than State Agencies)

Form 9

June 30, 2009
(In Thousands)

	Amount	
Accounts receivable (other than State agencies):		
Total accounts receivable as of June 30, 2008	$ 1,390	(1)
Less allowance for doubtful accounts	(387)	(2)
Net receivable	$ 1,003	

(1) Derived from the audited statement of net assets as follows:

Receivables:		
Premiums due from other entities	$ 392	(2)
Other	626	(2)
Restricted receivables:		
Premiums due from other entities	372	(2)
	$ 1,390	

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

West Virginia Board of Risk and Insurance Management

Schedule of Changes in Long-Term Obligations – Compensated Absences

Form 13

June 30, 2009
(In Thousands)

Type of Debt	Final Maturity Date	Balance as Reported June 30 2008	Payments	Other Changes	Balance June 30 2009	
Compensated absences – annual leave	Varies	$ 52	$ –	$ 6	$ 58	(1)

(1) Agrees to audited statement of net assets.

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

The Board of Directors
West Virginia Board of Risk and Insurance Management

We have audited the basic financial statements of the West Virginia Board of Risk and Insurance Management (BRIM) as of and for the year ended June 30, 2009, and have issued our report thereon dated October __, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BRIM's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BRIM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BRIM's internal control over financial reporting.

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 responsible possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

October __, 2008

B

Appendix B: Draft letter of representation

DRAFT

November __, 2009

Ernst & Young LLP
900 United Center
500 Virginia Street East
Charleston, West Virginia 25301

In connection with your audits of the basic financial statements of the West Virginia Board of Risk and Insurance Management (BRIM) as of June 30, 2009 and June 30, 2008 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the statement of net assets, statements of revenues, expense and changes in net assets, and cash flows of BRIM in conformity with US generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We recognize that, as members of management of BRIM, we are responsible for the fair presentation of its financial statements. We believe the statements of financial position, results of operations and cash flows are fairly presented in conformity with US generally accepted accounting principles applied on a basis consistent with that of the preceding years. After consultation with the Financial Accounting and Reporting Section of the Department of Administration, we have concluded that the patient compensation injury fund is an agency fund of the State, and will be reflected as such in West Virginia's (the State) Comprehensive Annual Financial Report (CAFR). Accordingly, proper disclosure of the exclusion from BRIM's financial statements has been made in the notes to the financials.

The basic financial statements properly classify all funds and activities. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved. Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal, as applicable. Required supplementary information is measured and presented within prescribed guidelines (MD&A, public entity risk pool disclosures).

We recognize that we are responsible for BRIM's compliance with the laws, regulations, grant agreements, and contracts that are applicable to it. We have identified and disclosed to you, all laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We are not aware of any noncompliance that could have a direct or material effect on the determination of financial statement amounts.

We are not aware of any violations (and possible violations) of laws, regulations, and provisions of contract and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a lost contingency. We have followed applicable laws and regulations in adopting, approving, and amending budgets, deposits and investments, including advance deposit requirements. We have made available to your representatives all financial records and related data. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Unrecorded audit differences

There were no unrecorded audit differences identified during the current audit and pertaining to the latest period presented.

Minutes and contracts

We have made available to you all minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared. We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Internal control

There are no transactions of a material nature, individually or in the aggregate, that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since June 30, 2009.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

Ownership and pledging of assets

BRIM has satisfactory title to all assets appearing in the balance sheet. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which BRIM has satisfactory title appear in the balance sheet.

Advance deposit with insurance company or trustee

All claims identified in prior years as being on the detail of claims paid by an insurance company, which do not represent claims covered by the retrospective rating plans, have been excluded from the section of the retrospective rating report that summaries claims paid during the current year. Thus, the summary of claims paid by an insurance company only represents claims actually paid through the retrospective rating plans and no adjustments for such items need to be made to claims paid during the determination of advanced deposits held with an insurance company or trustee.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the balance sheet dates, goods shipped on consignment, or other types of arrangements not constituting sales. All revenue recognized as of the balance sheet dates has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectability is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the balance sheet dates in respect of sales and services rendered prior to those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at those dates. We believe that the premium surcharge receivable from Bray & Oakley and Wells Fargo is collectible and no additional reserve is necessary.

Investments

Investments are properly valued. To our knowledge, none of BRIM's investments has permanently declined in value to an amount less than the carrying value in the financial statements. Deposits and investment securities are properly classified in category of custodial credit risk.

BRIM's cash equivalent/investments are held in pools that are managed by the Board of Treasury Investments (BTI) and the Investment Management Board (IMB), the management of which is not under BRIM's control. Such amounts are uncategorized investments under GASB 3's risk classification. Investments are reported by the BRI and IMB at fair value and are accounted for BRIM accordingly, with changes in fair value included in investment income. The earnings from these pooled investments are distributed to investment pool participants based on their pro rata participation in the pools. The financial statements reflect the required GASB 40 deposit and risk disclosures.

Liability for unpaid claims and claims adjustment expenses

The unpaid claims and claims adjustment expenses liability represents management's best estimate for each line of business for the ultimate net cost of all reported and unreported claims and claims adjustments expense incurred and unpaid through June 30, 2009 and 2008, estimated based on case basis estimates of claims reported prior to June 30, 2009 and 2008, estimated based on actuarial projections of historical loss development of claims incurred but not reported, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses, including estimates of expected salvage and subrogation receipts from such losses. Given the inherent degree of variability in any such estimates, the liabilities reported at June 30, 2009 and 2008 are a reasonable best estimate of BRIM's ultimate losses to be incurred to discharge BRIM's obligations. The liabilities for claims and claims adjustment expenses are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. We have made available to you all documentation and analyses used to develop management's best estimate.

The liability for unpaid claims and claims adjustment expenses was based on the best data available to us; however, because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, these estimates are subject to a significant degree of variability. These estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Although we believe the estimates of the liability for unpaid claims and claim adjustment expenses at June 30, 2009 and 2008, are reasonable in the circumstances, it is possible that BRIM's actual incurred claims and claims adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of claims and the related claims adjustment expenses may vary significantly from the estimates included in BRIM's financial statements. Also, we believe the footnotes describe this uncertainly. We do not believe that a deficiency exists; therefore, no liability is required to be accrued as of June 30, 2009 and 2008.

We agree with the findings of specialists in evaluating the liability for unpaid claims and claims adjustment expense and premium deficiency analysis and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists. All significant matters utilized in the actuarial estimation process by our consulting actuaries are determined or approved by management and we are in a position to and have made an informed judgment on the results of the valuation.

Reinsurance

The liabilities for unpaid claims and claims adjustment expenses are stated net of the estimated amounts recovered from reinsurers. All such reinsurance recoverable amounts are collectible at June 30, 2009 and 2008; however, BRIM remains primarily liable in the event that the reinsurers do not honor their obligations. We are unaware of any material adverse change in the financial condition of BRIM's significant reinsurers that might raise concern regarding their ability to honor their reinsurance commitments. The reinsurance contracts provided to you by BRIM represent BRIM's complete agreements with its assuming companies, and there are no modifications, either written or oral, of the terms of BRIM's reinsurance contracts of additional reinsurance agreements that have not been provided to you. We are not aware of any reinsurance transactions that have been disallowed by the West Virginia Department of Insurance. All retrospectively rated reinsurance contracts have been properly accounted for.

Related party transactions

Transactions with related parties, as defined in Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been properly recorded and/or disclosed in the financial statements.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (other than those disclosed in the financial statements).

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5, nor are there any accruals for loss contingencies included in the balance sheets that are not in conformity with the provisions of Statement of Financial Accounting Standards No. 5.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

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Purchase commitments

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at June 30, 2009 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Company's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Company.

Independence and Conflicts of Interest

We are not aware of any capital lease, material cooperative arrangement, or other business relationship between BRIM and Ernst & Young LLP or any other member firm of the global Ernst & Young organization. We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of BRIM's audit.

There are no instances where any officer or employee of BRIM has an interest in a company with which BRIM does business that would be considered a "conflict of interest." Such an interest would be contrary to BRIM policy.

Effects of new accounting principles

We have adopted GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. BRIM does not have any such obligations and the statement did not have a material impact on the basic financial statements.

Supplementary information

The supplementary information on Claims Development Information and Reconciliation of Claims Liability Type included has been prepared and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its Statement No. 30.

Subsequent events

Subsequent to June 30, 2009, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Company.

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We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Company taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,

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Charles E Jones, Jr. Director
Board of Risk and Insurance Management

____

Stephen Schumacher, Chief Financial Officer
Board of Risk and Insurance Management

____

Melody Duke, Controller
Board of Risk and Insurance Management

C

Appendix C: Table of required communications

For reference purposes, communication requirements with audit committees are summarized below.

	Communicate when event occurs	Communicate on a timely basis, at least annually
Communications required on all audits		
Our responsibility under GAAS, including other information in documents containing audited financial statements		X
Major issues discussed with management	X	
Significant audit adjustments		X
Unrecorded audit differences considered by management to be immaterial		X
Our judgments about the quality of the Company's accounting principles		X
Disagreements with management	X	
Consultations with other accountants	X	
Serious difficulties encountered in dealing with management when performing the audit	X	
The adoption of, or a change in, an accounting principle	X	
Methods of accounting for significant unusual transactions and for controversial or emerging areas	X	
Sensitive accounting estimates		X
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Significant deficiencies and material weaknesses identified during our audit		X
Additional communications required on audits of SEC clients		
Audit committee preapproval of services		X
Critical accounting policies and practices		X
Material alternative accounting treatments discussed with management		X
Other material written communications with management		X
Communication of independence matters		X
Additional communications required on audits of NYSE registrants		
Auditor's internal quality control procedures		X
Material issues raised in quality control reviews within preceding five years and action taken		X
Relationships between auditor and company		X
Additional communications required on audits of non-SEC clients		
Overview of planned scope and timing of the audit		X
Representations the auditor requests from management		X
Significant findings or issues arising from the audit that were discussed with management		X
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	X	

D

Appendix D: 2009 US property/ casualty industry outlook

January 2009

2009 outlook

Global Insurance Center

US property/casualty industry outlook

Overview

The US property and casualty (P/C) industry is emerging from the turmoil in financial markets with significant isolated damages, but so far no serious general impairment. The outlook for 2009 includes greater risks from continuing volatility in investment and underwriting performance, what looks to be a more active merger and acquisition (M&A) market, and the prospects of market defining regulatory changes. Looking ahead, this may be the beginning of a transitional if not transformational environment for the industry. It is a time when challenges in the competitive landscape can become opportunities for the efficient and well-prepared. In this context, we have identified seven key actions:

1. Redirect focus on premium pricing
2. Monitor claims inflation risk
3. Prepare for changes in regulatory oversight
4. Prepare for changes in accounting requirements
5. Address effective expense control
6. Rethink risk modeling
7. Watch for new M&A activity

Redirect focus on premium pricing

Because of the recent financial crisis, compounded by a return to normal or above-average catastrophe loss levels, price reductions are likely over for the foreseeable future. After a four-year period where technical and market pricing diverged, 2009 appears to be reversing the trend. This does not necessarily mean a return to a hard market, but it does signal a change in the dynamics of competition in the marketplace.

In most P&C business segments, pricing levels have been soft for the past four years. During that period, rate decreases were offset by an increase in insured exposures, resulting in virtually flat premiums. This changed with a softening of the economy in 2007. Still, profitability held up well, as loss levels declined in 2006 and 2007 in large part due to fewer catastrophe losses, loss reserve releases, and favorable casualty loss frequency experience. In spite of the ongoing rate competition, returns on capital reached record levels in 2007.

In 2008 catastrophes, pricing and the financial market crisis contributed to stress in the industry. Insured catastrophes totaled over $50 billion and reduced loss reserve releases contributed to an overall deterioration of 7 points in the combined ratio. Although it is unlikely that this level of catastrophe losses alone will significantly change overall market pricing, the current crisis in financial markets is exerting upward pressure on pricing. As a result, US P&C policyholder surplus has fallen because of (i) financial guarantee insurance losses, (ii) other than temporary impairment (OTTI) of investment grade bonds and preferred stock, and (iii) substantial decreases in values of equity holdings. Surplus may drop by 10% or more by the end of 2008.

Early indications of pricing negotiations give strong support to at least a firming of the market in most lines. Insurer and reinsurer concerns over loss volatility and potential for mega-losses in highly developed catastrophe-prone locations should contribute to price stabilization. Additionally, losses in directors and officers (D&O) and errors and omissions (E&O) products will certainly result in significant price increases in those market segments.

These factors will give rise to additional scrutiny by both rating agencies and regulators. Surplus preservation, particularly against catastrophic events, remains a critical "cycle survival" strategy.

Monitor claims inflation risk

The environment for P&C insurers through 2009 is likely to continue a volatile pattern that drives claims costs. In spite of the deepening recession and the rising concern of deflation, longer term, the industry must account for the massive deficit spending undertaken by the federal government. Insurers' exposure to inflationary risk in many instances is fundamentally different from the factors that drive inflation in the broader economy: medical costs, construction costs and tort issues continue to account for the lion's share of the industry's inflation trend. Although severity and frequency trends have benefited from the positive effects of broad tort reform in the last decade, these effects are starting to erode. The most significant factor in the broader economy will be the long-term impact of the federal bailout and economic stimulus packages that have already added to government deficits.

Through most of 2008, inflation spiked upward: since the financial crisis, the commodities futures for construction inputs have fallen and retail prices have followed. In an inflationary environment, P&C insurers as third-party payers or in adversarial claims settlement positions are in a poor negotiating position relative to larger purchasers of commodities or services. Medical cost is the broadest element in inflation, and it impacts product lines such as personal and commercial automobile, general liability, workers' compensation, commercial multiperil, and medical malpractice insurance. Over the past five years, medical care costs and hospital services have outpaced general inflation by 20%, making it difficult to predict the direction or magnitude of medical cost inflation.

Prepare for changes in regulatory oversight

Will 2009 be the year that federal regulation gets a firm foothold in the insurance industry? Recent market events, including the federal involvement in banking, have added a sense of urgency to these discussions. Momentum for change in the insurance regulatory structure is building, and the near-term uncertainty about the outcome presents challenges for the industry.

It is almost certain that the P&C industry will face increased regulation as an outcome of the current crisis in the financial services industry. Regulation is likely to be more intrusive, encompassing more continuous monitoring of activities and financial performance, perhaps with higher standards of solvency over the longer term (even though there may be some loosening of standards to help life insurers out of the current crisis).

The form of federal supervision favored in the Treasury's 2008 report, Blueprint for a Modernized Financial Regulatory Structure, is the optional federal charter (OFC) – allowing insurance organizations the opportunity to choose the form of regulatory oversight that they find most appropriate. At this stage, it appears OFC is giving way to increased likelihood that federal regulation will be applied to all insurance and financial services sectors to some degree.

While the case for federal oversight is more apparent in the life industry, where geography matters little in product design or consumer preferences, the P&C industry's geographic variations present a formidable hurdle for centralization. Solvency protection and the workings of guaranty funds vary dramatically among the states. Differing levels of catastrophe exposure are a divisive factor that separates their interests. Consumer protection in automobile and housing repair, variations in litigation trends driven by the influences of state courts and legislation, and business sector concentrations all differ considerably by state. In 2007 and 2008, there are no clear indications that solvency or failure of regulation has been a systemic problem in the P&C arena, as it has in other insurance sectors and in financial services. Some form of compromise legislation may apply to P&C companies: maintaining rate and consumer protection regulation at the state level, but developing federal mechanisms to monitor solvency and provide an alternative to guaranty funds.

In the existing state-based insurance regulatory framework, the current guaranty fund structure is not designed to respond to events like the recent crisis. It handles specific failures of an individual entity, but not systemic failures that might broadly imperil the industry. States are hampered in addressing system-wide events because the process lacks the principle of a "lead regulator" and the dollar cost is too high. While state regulation is structured to act by seizing a company when a situation forces the equivalence of bankruptcy, it is

A longer-term, sustainable approach to expense control must be applied to make a measurable difference.

limited in the capability and tools to head off systemic problems before they cause collapse. Furthermore, state ratings agencies currently act as "shadow regulators," and while they may be able to influence behavior more proactively, they need to address a current lack of consistency and transparency.

Federal regulation could alter the competitive landscape of the P&C insurance industry. Opportunities to accelerate geographic expansion through both organic and acquisition channels will develop for those prepared to exploit the changes. Value will likely be created by those who can quickly adopt and defend strong regional and super-regional market presence.

Prepare for changes in accounting requirements

Accounting issues will be critical in 2009 and beyond as companies prepare to adopt a new financial reporting platform. With the Securities and Exchange Commission's 2008 pronouncements regarding the convergence of US generally accepted accounting principles (GAAP) with International Financial Reporting Standards (IFRS), companies are beginning to prepare for the anticipated change to a market-consistent framework.

Implementing principles-based and market-consistent accounting challenges nearly every established system and operational facet of an insurance company. Under such a system, income statements and balance sheets become more volatile as assets and liabilities are increasingly subject to market valuations.

IFRS 4 Phase II and Solvency II have planned European Union implementation dates of 2012. Until then, US companies need to build the infrastructure to accommodate not only the existing IFRS framework but also the added challenges these changing rules and regulations present. This involves a huge operational undertaking, even in the best of times, but the financial crisis and recession have increased the pressures.

As companies plan for the upcoming changes, the definition of the market-consistent framework may undergo changes as the impact of the financial crisis, and the role played by mark-to-market accounting of thinly-traded instruments, is better understood. The International Accounting Standards Board has allowed companies in certain circumstances to reclassify some financial instruments out of the "trading" category and into the "loan" category, which is carried on a cost basis, to help resolve the credit crisis, while reaffirming the need for transparency in asset valuations.

Thus, companies need to prepare for an uncertain roll-out of these requirements. This can increase the risks associated with some longer-term strategic decisions, where changing accounting or related tax regimes may alter the nominal value of the decision. Management must keep up with their peers in adopting systems and information capabilities to respond to these changes as they unfold.

Address effective expense control

For most of this decade, expense ratios have been rising steadily. For the P&C industry overall, underwriting, acquisition and general expense ratios as a percentage of premium are expected to reach 27.5% in 2008; this is higher than in any year since 1999. More significantly, underwriting, acquisition and general expense dollars were up 52% in those nine years. While premiums and claims grow in tandem, expenses should see benefits of size and economies of scale – and so far, this has not happened. The pace of cost increase indicates that real inefficiencies are accumulating and are not simply a function of slowing premiums.

Long-term reversal of expense growth requires an emphasis on effective service outcomes in three critical operating areas: underwriting costs (including policy administration), acquisition expense (primarily, fees to brokers and agents), and claims-adjustment expense. Expense cutting cannot be haphazard or it may create more problems than it solves.

Offshore and onshore outsourcing are expense-control options to reduce operating costs, especially those related to routine submissions and policy administration. However, outsourcing core functions carries risks associated with the long-term stability of the service providers. Regardless of the risks, successful outsourcing is a long-term solution that requires a broad view in terms of training, effectiveness of communication, and quality control.

Distribution is another area of expense control where efficiencies can be achieved through alternative marketing channels, including online quotation and policy delivery. While improvements have been made in personal lines, the complexity of policy applications continues to slow the process on the commercial side. Compounding this issue is the rather low confidence that corporate buyers and agents/brokers often feel in using new forms of electronic commerce. However, this should change as a new generation of users become more comfortable with electronic interchange and become more included in risk-management purchasing and decision-making positions.

Many of the largest P&C insurers undertook cost-reduction initiatives during the second half of 2008. However, a longer-term, sustainable approach to insurance spending must be applied to make a real difference.

Rethink risk modeling

In the year ahead, P&C insurers will need to incorporate risk-management lessons learned, particularly lessons learned in 2008, into their risk-management processes. Insurers will go beyond refreshing models, to focus on expanding information used for risk analysis and to better understand the realities of new and continually volatile financial-market conditions.

Risk models may provide insight into the proper application of information or into the additional information that is needed, but they should only play a part in the overall risk-management process. When it comes to modeling priorities, line managers and corporate functions will have increasing responsibility to ensure that lessons learned are incorporated into models. Adjustments may be needed in order to improve the modeling of changing economic and capital-markets conditions. On the asset side, modelers will pursue more complex credit-ratings transition matrices, correlations between asset classes and sectors, the importance of maintaining liquidity under stress scenarios, and methods of projecting both the deterioration and recovery of assets over time. Outputs from models and scenario tests will also need to be examined critically against real-world experience with an increased respect for extreme scenarios and worst-case hypotheticals.

Models may also continue to provide insight to managers, and are an opportunity to illustrate effects to third-party audiences in characteristics such as unexpected correlations, rates of decay or deterioration, and aggregation risks. But the effort to improve models will fall flat without supervision by managers who are accountable and who are knowledgeable about real-world trends and influences.

Watch for new M&A activity

The financial crisis has created a unique confluence of events resulting in an unprecedented landscape for insurance mergers and acquisitions. The government bailout of one of the world's largest financial institutions has placed its most prized assets on the auction block. Additionally, other insurers are looking to focus on core businesses and shed nonstrategic lines of business in order to free up capital and streamline operations. The total insurance properties currently available for sale exceeds the M&A activity of the last several years combined. Concurrently, potential buyers are capital-constrained. Insurers are holding on to any excess capital to protect against further deterioration in investment markets, and private equity investors are challenged to find an appetite in the credit markets for large-scale acquisitions.

Transactions will wait until acquisition-minded insurers are more assured of having adequate capital, and until private-equity investors are once again able to access the debt market. Given current equity valuations, the use of stock is not generally available as currency to fund transactions. A few companies will emerge from the current situation with strong balance sheets and will use a portion of capital to fund an acquisition, but they are likely to wait until the depth of the current economic downturn, and its impact on operating performance, is better understood.

If current economic conditions persist, two additional factors will come into play that will drive down current sales prices for insurance properties. First, pressures from debt holders, regulators and rating agencies will force organizations to sell at prices below current valuations. Second, the performance of insurance units on the sales block will deteriorate over time as morale and employee performance suffer with the uncertainty of a sale. Depending on the speed and pace of economic recovery, 2009 may be one of the more significant years in the insurance M&A market.

Data supplied by Conning Research & Consulting

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0909-1087874

AGENDA
BOARD MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND
INSURANCE MANAGEMENT

September 9, 2009

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes June 23, 2009
Charles E. Jones, Jr. Executive Director	Introduction of Tom O'Rourke and Chuck Meyers of Chartis
Chuck Meyers	Presentation on the "State of Chartis"
Charles E. Jones, Jr. Executive Director	Executive Director's Report
Steve Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

September 9, 2009

BOARD MEMBERS:	John R. Lukens, Chairman Bruce Martin, Vice Chairman Sherry Cunningham, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Jerry Gladwell, Underwriting Manager Chuck Mozingo, Assistant Claim Manager C. Blaine Nelson, Deputy Underwriting Manager Melody Duke, Controller Jeremy Wolfe, Loss Control Manager Carl Baldwin, Loss Control Specialist Stephen Fowler, BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, Chartis Charles Meyers, Chartis Tom O'Rourke, Chartis Joanna Valleau, Chartis Harry "Skip" Morris, Wells Fargo Bob Ayers, Wells Fargo
GUESTS:	Sandy Price, WVU Health Sciences Michael J. Gansor, WVU Health Sciences Brian Carrico, Marshall University

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Lukens at 1:05 p.m. on Wednesday, September 9, 2009, at

90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the June 23, 2009 Board Meeting. The motion was seconded by Mr. Martin. There being no discussion, a vote was taken and the MOTION ADOPTED.

Before proceeding with his report, Mr. Jones introduced Tom O'Rourke, Regional Underwriting Manager of the Risk Management Group of Chartis' Cleveland Office, and Charles "Chuck" Meyers, Vice President of Special Projects of their New York CFO's office. Mr. Jones explained that Mr. Meyers would be providing the Board with some insight as to the operational and financial status that exists in their organization, as well as what led to the creation of "Chartis," how it is a "special purpose vehicle," and the futuristic prospects for the company.

Presentation on the "State of Chartis"

Mr. Meyers began his presentation by noting that the name change does not have a direct financial impact. The concern has been that with reputation.

On July 27, 2009, AIG Inc. announced the formation of a special-purpose vehicle, AIG's commercial property/casualty and high net-worth personal lines business, which is comprised of AIU's commercial insurance, foreign general insurance and private-client business. Though organizationally separated from AIG, Chartis remains 100% owned by the company. AIG is positioning Chartis to be more independent, with the proceeds from the eventual sale to pay back some of the billions the government has invested into the company.

The biggest challenge facing Chartis, AIG's commercial property/casualty and high net-worth personal lines business, is not getting out of the shadow of AIG so much as dealing with a difficult economy.

Although AIG lost billions last year, the unit now known as Chartis was profitable, with an operating income of $3.3 billion worldwide.

Scanning through the printed update previously distributed to the Board, Mr. Meyers briefly touched upon some of the chain of events and a few major points as follows:

1. The largest concentration of Chartis' investments is in municipal securities.

2. Several U.S. companies comprise Chartis. This was, in part, because of the regulatory environment in which Chartis operates.

   Mr. Meyers thereafter noted that National Union Fire Insurance Company of Pittsburgh, PA., which is the largest of the companies comprising Chartis, is the company through which all of BRIM's insurance business is handled.

3. These companies make up a "pool," which allows the risk to be shared among them.

4. Since net written premiums are down because of the drop in workers' compensation, the question is: If the net written premiums are down, will Chartis be forced to sell off securities in order to pay claims?

   The answer to that question is "no," we don't rely on this year's premiums to pay for last year's claims. That's what the investment portfolio is for. The normal cash flow will keep Chartis from being in a position where it would be forced to sell off securities.

5. With regard to the separation of Chartis from AIG, Mr. Meyers stated that there was no hard and fast timeline, but they hope to find a buyer for 19.9% of Chartis by September 2010. However, it is the regulatory environment that protects us that also slows down this process somewhat. Once the company does have an outside investor, it becomes easier to sell off the other "chunks."

Based upon the process explained for selling off various percentages of the company, Mr. Meyers predicts that by the end of three or four years, Chartis will be completely unaffiliated from AIG.

During further conversation, the pooling structure was explained and how regulators assign a formula to risk-based capital—a formula that's set by regulators to all company property and a way of assigning risk to the elements of your investment portfolio.

In conclusion, Mr. Meyers remains optimistic about the future of Chartis and believes Chartis will continue to be a positive leader and remain strong in the property and casualty businesses in the U.S. and Canada.

REPORTS

The monthly report of the Executive Director was received and filed, a copy of which is attached and made a part of the record.

Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of June 30, 2009, the unaudited income statement for the twelve months ending June 30, 2009, and the line of business statements (Total State, Total SB 3, Mine Subsidence and BRIM HB 601) for the same periods were received and files, copies of which are attached and made a part of the record.

A CD containing copies of the May, June and July 2009 purchasing card invoices was distributed to each Board member. Chairman Lukens signed the acknowledgement form for the February, March and April 2009 billing. The acknowledgement form was retained by the Finance Department.

The Loss Control Report of the Deputy Director/Claim Manager was received and filed, a copy of which is attached and made a part of the record.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:09 p.m.

____________________________ ______________________
Board Chairman Date

Executive Director’s Report

September 9, 2009

A. Chartis

A representative from Chartis will attend the Board Meeting on September 9, 2009. Given the perilous financial times many businesses find themselves in, the timing is appropriate for Chartis to provide insight to the Board as to the operational and financial status that exists in their organization as well as what their plans are for the future. Scheduled to appear are Tom O’Rourke, Regional Underwriting Manager of the Risk Management Group of Chartis’ Cleveland Office, and Chuck Myers, Vice President of Special Projects with their New York CFO’s office.

BRIM is currently in the 5th year of a five-year agreement with Chartis as the carrier for the liability program. Our initial agreement with Chartis (formerly AIG) began July 1, 1995 and was for a term of five years (July 1, 1995 thru June 30, 2000). Prior to the expiration of that five-year agreement, BRIM published a Request for Proposal (RFP), which was won by the incumbent Chartis (formerly AIG) for the time frame July 1, 2000 thru June 30, 2005. Prior to the June 30, 2005 expiration, BRIM again published a RFP for the contract we are in now, July 1, 2005 thru June 30, 2010. There have been considerable revisions and cost savings to the program such as establishing a trust account from which claims are paid in which BRIM receives the interest on the trust. Internally, we are reviewing our options and procedures for direction as to how we are to structure our program for the next five years.

B. Marshall University/WVU Medical Malpractice Deductible Program

- As of August 31, 2009, Marshall has deposited $1,507,545.61 into the escrow account. The year-to-date cumulative interest totals $116,528.05. There have been four disbursements totaling $37,116.75 made during fiscal year 2009 thus far.

- As of August 31, 2009, a total of $5,504,599.75 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $116,002.33. There have been 15 disbursements totaling $366,817.93 made during fiscal year 2009 thus far.

- The phase-out stage of the Trauma Physician Program is almost completed. When completed, all physicians should have either transferred to the Physicians' Mutual or alternatively, retired.

C. Litigation

The August 2009 report from Chartis for the period ending July 31, 2009 currently reveals that in July, no cases were tried to verdict, and YTD, nine cases have been tried to a verdict, with six defense verdicts and three plaintiff verdicts.

New lawsuits have increased 26.5% over year-to-date 2008; closed lawsuits have increased 13.9%, and pending lawsuits have increased 1.6%.

D. Interim Discussion Issues

As an agency with the Department of Administration (DOA), BRIM attends the Joint Committee on Government and Finance (JCGF) with Cabinet Secretary Ferguson. The Cabinet Secretary reports to the JCGF issues pertinent to the respective agencies and their financial condition. Although we routinely report BRIM's financial condition as completely funded, there are usually questions about other issues. Some of the questions pertain to coverages we provide or don't provide, i.e., Uninsured/Underinsured Motorists coverage for State vehicles; the $475,000 telephone bill attributed to the Physical Therapy Board; the scam at the Auditor's Office netting approximately $2 million among others. There were no BRIM operational concerns voiced by the Committee.

E. BRIM Financial Report

The complete BRIM Financial Report is provided by the Chief Financial Officer, who will comment on the FY 2009 year-end audit, total reserves, and the effect of lower investment returns on net income.

F. Appraisal Reports

BRIM contracted with three separate appraisal firms to determine replacement cost of currently insured buildings valued at $1 million or more. The Underwriting Department is spearheading this effort

G. BRIM Projects

1. A review of the driver training program will be covered in the Loss Control Report. However, we are very pleased to report that BRIM was recognized in the "*Best Performance"* category for its online Defensive Driving Course. BRIM officials will be recognized at the National Safety Council's 2009 Congress and Exposition in Orlando, FL, on October 24, 2009.

2. Business Continuity Plan (BCP) – Actively working on completing the BRIM Disaster Recovery/Business Continuity Plan as well as the Department of Administration DR/BCP. Key players are Chuck Mozingo and John Fernatt, who will also travel to San Diego in September for a DR/BCP conference and training.

H. Miscellaneous

1. STRIMA - The 2009 STRIMA Conference will be held in Seattle, Washington, from September 19th through September 24th. Robert Fisher, Steve Schumacher and June Butterfield will be accompanying me to the conference.

2. Pending – We are in the process of finalizing our request to fill two vacant Loss Control Specialist II positions, in accordance with

the instructions and guidelines for requesting exceptions to the temporary restrictions on hiring.

3. The 2009 Annual Report for BRIM can now be reviewed by accessing the website for West Virginia Legislature, clicking on Audits/Reports, State Agency Reports, and scrolling down to Risk and Insurance Management, Board of. Copies of the report were previously sent to the Board Members and management staff.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT

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Joe Manchin III
Governor

Robert Ferguson, Jr.
Cabinet Secretary

Chief Financial Officer's Report
September 9, 2009

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of May, June and July, 2009. These totals are:

May	$49,696.48
June	$19,182.73
July	$55,780.89

B. Financial Report

- The FY'09 external audit by Ernst & Young is underway and should be completed by mid-October. The results presented for the fiscal year ended June 30, 2009 are draft and subject to completion of the year-end audit. Most of their field work has been completed and nothing significant has been brought to management's attention.
- The total reserves shown are the actuarially estimated reserves as reflected in the recently completed risk funding study as of June 30, 2009. The reserves will be reviewed by Ernst & Young as part of their normal year-end audit work.
- Net income reported for the FY'09 is $23.1 million vs. $29.9 million for FY'08. The decrease is the result of lower investment returns and lower premium revenue for FY'09.
- Other income is $7.3 million in FY'09. This is down about $3.3 million from FY'08 levels which is a reflection of the harsh investment environment in the first half of FY'09. However, investment returns recovered dramatically in the second half of FY'09.

C. Actuarial Risk Funding Study

- AON's risk funding study as of June 30, 2009 has been completed and the final report will be issued shortly. AON made refinements to the year-end reserve model that better reflect the claims development within the State and Senate Bill 3 programs. The updated claims reserves are included in the draft year-end financial statements.

D. AIG Update

- On July 27, 2009 AIU Holdings announced the establishment of Chartis, Inc. as a special purpose vehicle to house their global commercial property and casualty businesses going forward and also appointed Kristian P. Moor as CEO of Chartis, Inc.
- John Doyle was appointed CEO of Chartis U.S., Inc. on August 11, 2009. Chartis U.S., Inc. is the holding company for Chartis' commercial property-casualty companies in the U.S. and Canada, including National Union Fire Insurance Company of Pittsburgh, Pa (National Union).
- On September 2, 2009 Chartis U.S, Inc. issued pro-forma financials for the six months ended June 30, 2009. These results include National Union which provides BRIM's primary policies. National Union policyholder's surplus is $12.3 billion at 6/30/09.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	June 30	
	2009	2008
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 32,181	$ 30,595
Advance Deposit with Carrier/Trustee	174,215	158,436
Receivables - Net	1,139	1,709
Prepaid Insurance	-	-
Total Short Term Assets	207,535	190,740
Long Term Assets		
Investments	105,461	109,325
Total Long Term Assets	105,461	109,325
TOTAL ASSETS	312,996	300,065
LIABILITIES		
Short Term Liabilities		
Accounts payable	520	781
Claims Payable	158	13
OPEB Liability	87	35
Agents Commissions Payable	1,247	1,621
Unearned Revenue	7,235	7,705
Current Estimated Claim Reserve	48,650	50,693
Total Short Term Liabilities	57,897	60,848
Long Term Liabilities		
Compensated Absences	58	52
Estimated Noncurrent Claim Reserve	104,083	111,535
Total Long Term Liabilities	104,141	111,587
TOTAL LIABILITIES	162,038	172,435
Prior Year Net Assets	127,630	97,547
Change in accouging principle for OPEB	-	148
Current Year Earnings	23,328	29,935
TOTAL NET ASSETS	150,958	127,630
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 312,996	$ 300,065

DRAFT - Unaudited - Management Purposes Only

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
For the twelve months ending

	June 30 2009	June 30 2008
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 62,427	$ 72,986
Less - Excess Insurance	(5,944)	(6,394)
Total Operating Revenues	56,483	66,592
Operating Expenses		
Claims Expense	31,204	40,991
Property & MS Claims Expense	5,400	1,991
Personal Services	1,349	1,260
General & Administrative Expense	2,545	2,987
Total Operating Expenses	40,498	47,229
Operating Income	15,985	19,363
Nonoperating Revenues		
Court Fees	31	30
Other post employment benefits	-	30
Investment Income	7,312	10,512
Total Nonoperating Revenues	7,343	10,572
Net Income	23,328	29,935

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
June 30, 2009
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 7,943	$ 11,589	$ 7,391	$ 5,258	$ 32,181
Deposits Held by Carrier/Trustee	90,805	83,410	-	-	$ 174,215
Receivables - Net	409	358	372	-	$ 1,139
Prepaid Insurance	-	-	-	-	$ -
Total Short Term Assets	99,157	95,357	7,763	5,258	207,535
Long Term Assets					
Investments	62,461	20,350	22,650	-	105,461
Total Long Term Assets	62,461	20,350	22,650	-	105,461
Total Assets	$ 161,618	$ 115,707	$ 30,413	$ 5,258	$ 312,996
Liabilities					
Short Term Liabilities					
Accounts payable	105	406	9	-	520
OPEB Liability	43	41	3	-	87
Claims Payable	134	24	-	-	158
Agents Commissions Payable	-	1,247	-	-	1,247
Unearned Revenue	-	6,530	705	-	7,235
Current Claim Reserve	25,812	22,087	751	-	48,650
Total Short Term Liabilities	26,094	30,335	1,468	-	57,897
Long Term Liabilities					
Compensated Absences	38	19	1	-	58
Claim Reserve IBNR	54,134	49,671	242	36	104,083
Total Long Term Liabilities	54,172	49,690	243	36	104,141
Total Liabilities	80,266	80,025	1,711	36	162,038
Prior Year Net Assets	78,297	15,699	28,549	5,085	127,630
Current Year Earnings	2,964	19,830	153	137	23,084
Total Net Assets	81,261	35,529	28,702	5,222	150,714
Total Liabilities and Retained Earnings (Deficiency)	$ 161,527	$ 115,554	$ 30,413	$ 5,258	$ 312,752

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the twelve months ending June 30, 2009
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 31,596	$ 28,902	$ 1,929	$ -	$ 62,427
Less: Excess Insurance	$ (2,250)	$ (3,887)	$ -	$ -	$ (6,137)
Total Operating Revenues	$ 29,346	$ 25,015	$ 1,929	$ -	$ 56,290
Operating Expenses					
Claims Expense	26,100	4,849	354	(99)	31,204
Property & MS Claims Expense	2,086	2,658	605	51	5,400
Personal Services	683	622	44	-	1,349
General and Administrative Expense	675	1,854	14	2	2,545
Total Operating Expenses	29,544	9,983	1,017	(46)	40,498
Operating Income (Loss)	(198)	15,032	912	46	15,792
Nonoperating Revenues					
Interest Income	3,162	4,798	(759)	60	7,261
Court Fees	-	-	-	31	31
Total Nonoperating Revenue	3,162	4,798	(759)	91	7,292
Net Income (Loss)	$ 2,964	$ 19,830	$ 153	$ 137	$ 23,084

Loss Control Report to the Board
May 2010

1. We are pleased to report that we have now filled the two vacant Loss Control Specialist positions. Our new employees will report to work for the first day on June 16, 2010. We plan to introduce them to you at the next Board meeting.

2. On May 18, 2010 we sent out Loss Control Questionnaires to all state agencies. The deadline for their submission to BRIM is August 1, 2010.

3. More than fifty senior management officials were present for the March 4, 2010 risk management seminar that we hosted for county boards of education and for state colleges and universities. This was the first such seminar we've sponsored in quite a few years. We hope to be able to sponsor similar seminars geared toward these and other classes of insured.

4. We have begun the process of renewing our risk management service vendor contracts for the 2010-2011 fiscal year with Aon Global Risk Consulting and Chubb Group of Insurance Companies. This will be the second year for these contracts.

5. During the months of March and April, AON conducted 74 inspections and CHUBB conducted 332. The reports are being processed according to established procedures.

6. Since my last report, our loss control technical staff reports the following activity:

    6 Loss Control Visit
    These are standard loss control visits which focus on all coverage areas and which result in information and/or loss control recommendations being provided.

    8 Standards of Participation Visits
    These are visits which are designed to provide assistance to our insured who are seeking to become compliant with the BRIM Standards of Participation program.

    3 Presentation Visits
    These are visits during which we provide active training and/or outreach to a group of individuals.

    1 Continuing Education Visit
    These are visits which are designed to provide the loss control specialists with education and training for professional development.

    5 Inspection Observation Visits
    These are visits during which we accompany a vendor inspector during scheduled inspections.

Loss Control Report to the Board
May 2010

289 Senate Bill #3 Standards of Participation evaluation have been completed since February 23, 2010.

Dated: 5-20-2010

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

Joe Manchin III, Governor
State of West Virginia

Robert Ferguson, Jr., Cabinet Secretary
Department of Administration

BOARD OF RISK AND INSURANCE MANAGEMENT

As of June 30, 2010