State of West Virginia
Board of Risk and Insurance Management
2012 Annual Report

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

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Earl Ray Tomblin
Governor

Ross Taylor
Acting Cabinet Secretary

Charles E. Jones, Jr.
Executive Director
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August 30, 2012

Honorable Earl Ray Tomblin, Governor
State of West Virginia

Governor Tomblin:

The Annual Report of the West Virginia Board of Risk and Insurance Management (BRIM) for the year ended June 30, 2012 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.

BRIM is governed by a five-member board appointed by the governor for terms of four 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 161 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.

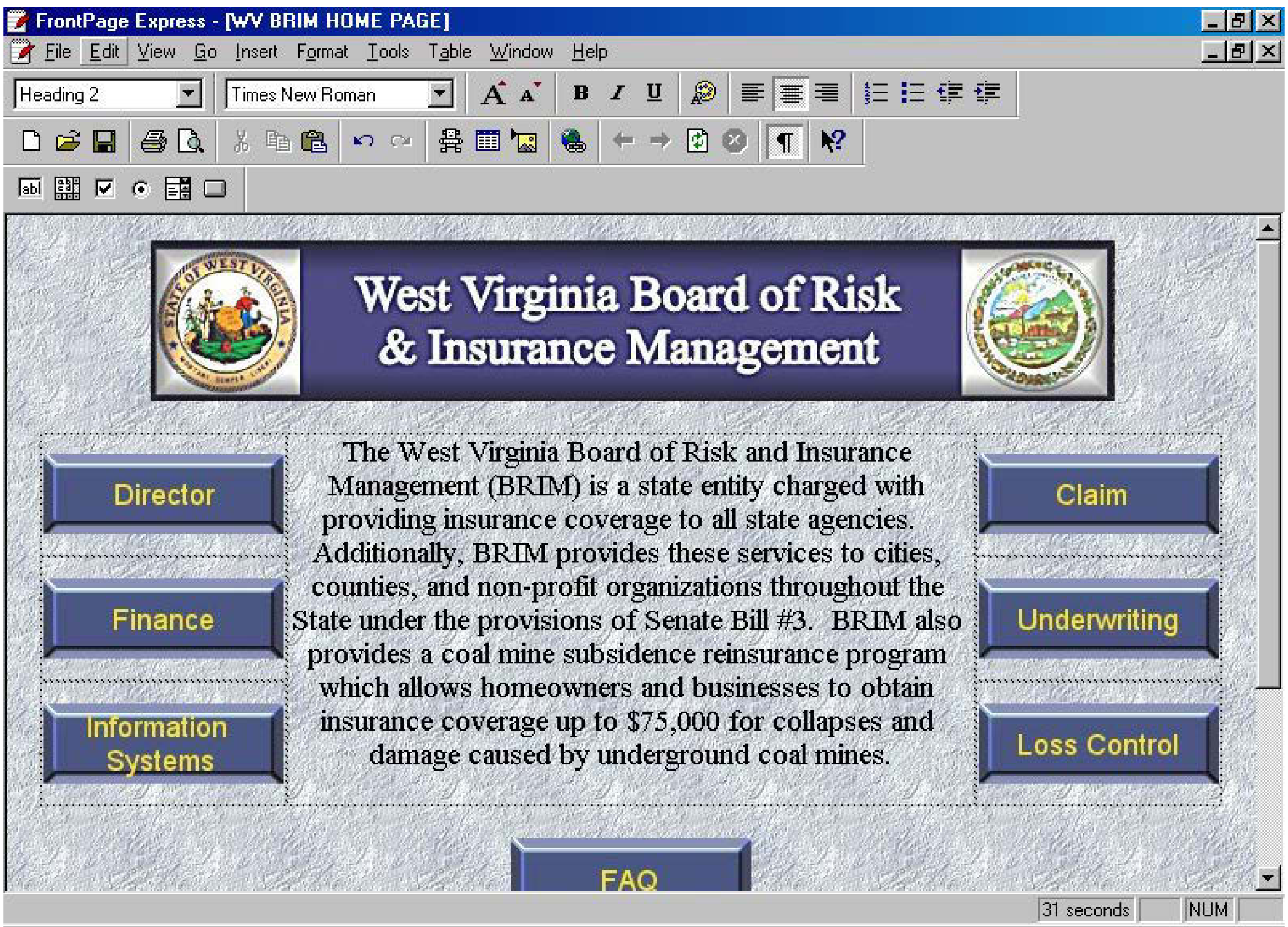
Internal controls have been put in place to ensure the assets and property of BRIM are protected from theft, loss or misuse and to provide adequate accounting data for preparing Generally Accepted Accounting Principles (GAAP) based financial statements.

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

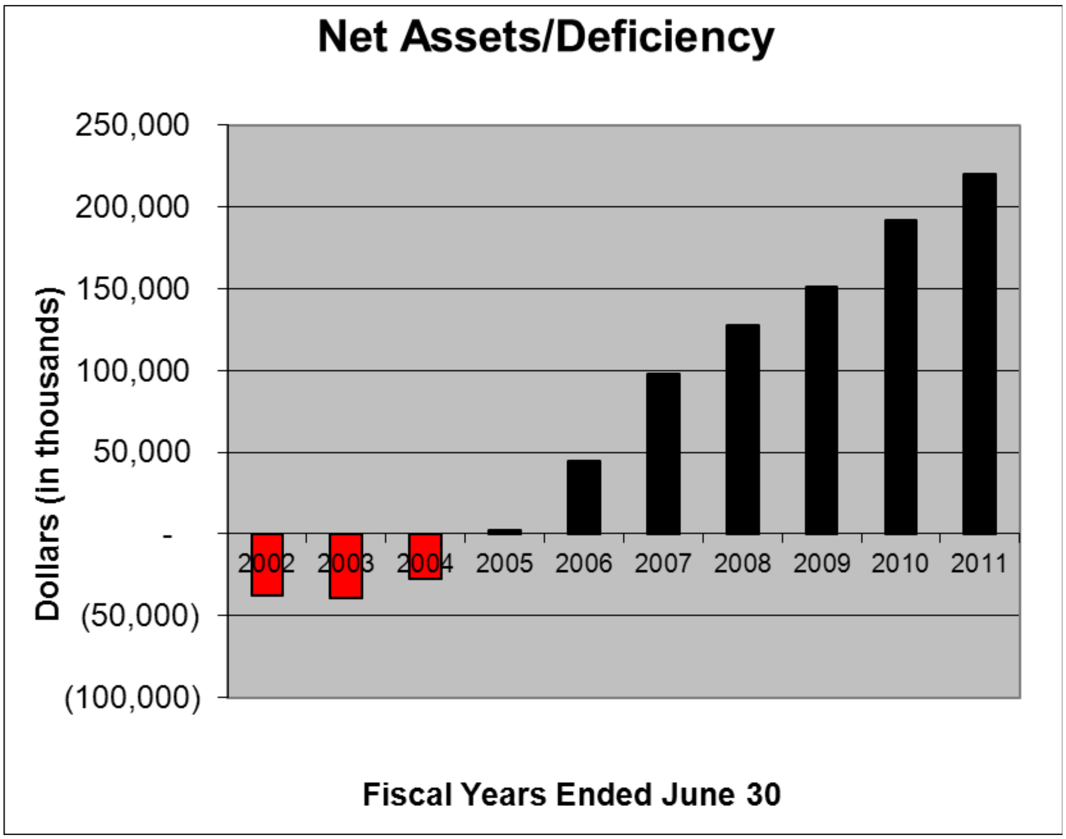
Below are audited results from operations of four most recent fiscal years ended June 30:

(In thousands)	2008	2009	2010	2011
Operating Revenues:				
Premiums	$72,986	$62,427	$58,007	$52,538
Less Excess Coverages	(6,394)	(5,944)	(6,257)	(6,075)
Net Operating Revenues	66,592	56,483	51,750	46,463
Operating Expenses:				
Claims & Claims Adjustment	42,982	36,604	31,668	33,598
General Administrative	4,247	3,894	3,946	4,026
Total Operating Expenses	47,229	40,498	35,614	37,624
Operating Income (Loss)	19,363	15,985	16,136	8,839
Non-Operating Revenues:				
Interest Income, Appropriations	10,572	7,343	25,113	18,782
Net Income	29,935	23,328	41,249	27,621
Retained earnings at beginning of year	97,547	127,630	150,958	192,207
Change in accounting principle for other post employment benefits	148	--	--	--
Retained earnings at end of year	$127,630	$150,958	$192,207	$219,828

BRIM has worked diligently for the past several years to maintain positive retained earnings and eliminate its unfunded liability. Favorable loss patterns and adequate funding have enabled BRIM to achieve positive retained earnings from 2005 thru 2011. 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."

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.

The fund is administered and operated by BRIM. During fiscal year 2005, BRIM began receiving the appropriated funds into this account. 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.

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, 2012. The June 30, 2012 report will be available near the end of October 2012.

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, 2011, 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, 2012. The CAFR for fiscal year 2012 will be issued before December 31, 2012. 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.

Respectfully submitted,

C. E. Jones Jr.

Charles E. Jones, Jr.
Executive Director

State Listing of Coverages in Effect for Fiscal Year 2012

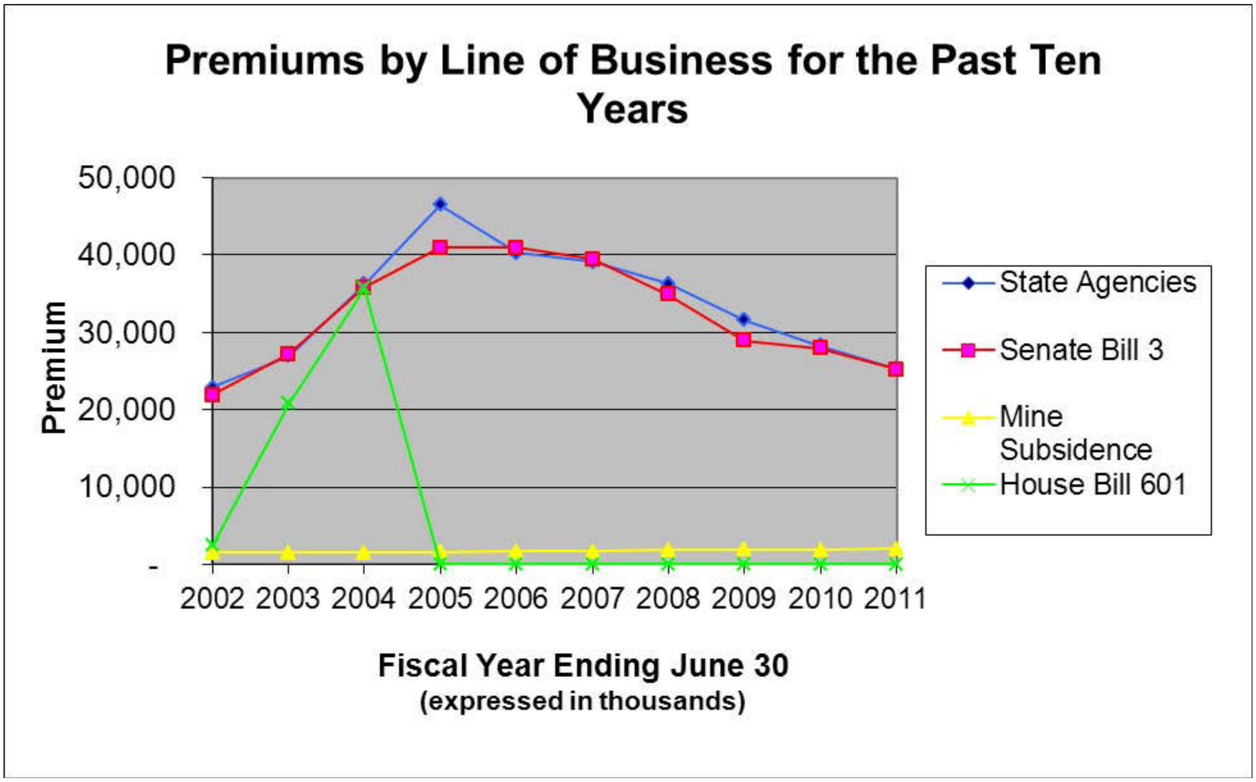
	LIABILITY	LIMIT OF LIABILITY
1.	Automobile Liability Policy No. RMCA 350-62-97 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
2.	General Liability Policy No. RMGL 244-94-50 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
3.	Aircraft Liability Policy No. AV003380147-09 Company: National Union Fire Insurance Co.	$ 10,000,000 per occurrence
4.	Excess Liability-Bd. of Education Policy No. 48409866 Company: The Insurance Company Of The State of Penn	$ 5,000,000 per occurrence or claim
5.	Pollution Legal Liability Select Policy Policy No. 14046842 Company: Chartis Specialty Insurance Company (Technology Park only)	$ 1,000,000 each incident $ 3,000,000 aggregate

	PROPERTY	LIMIT OF LIABILITY
1.	Blanket Property Policy No. MAF760728-11 Company: Axis Insurance Company	$ 25,000,000 primary layer $ 1,000,000 deductible
	Policy No. NHD372236 Company: RSUI	$ 175,000,000 in excess of 25,000,000
	Policy No. CICA 3259 Commonwealth Insurance Company of America	$ 50,000,000 in excess of $ 200,000,000
	Policy No.: MAF733355-11 Company: Axis Insurance Company	$ 150,000,000 in excess of $ 250,000,000
	Policy No. MAF760729-11 Company: Axis Insurance Company	$ 10,000,000 flood with $ 1,000,000 deductible
2.	Boiler and Machinery Policy No. 7642-68-24 Company: Chubb	$ 5,000,000 per equipment covered in 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 2011	
1	West Virginia State Police	$4,948,648
2	Division of Highways	4,235,089
3	West Virginia University	3,885,511
4	Department of Health & Human Resources	3,119,738
5	Marshall University	1,445,566
6	Corrections Division	821,697
7	Regional Jail and Correctional Facility Authority	398,364
8	Department of Natural Resources	360,049
9	West Virginia State Parks	354,955
10	West Virginia Parkways Authority	321,249
	Total Top Ten	**$19,890,866**
	Total State Premium Billing for 2011	**25,868,596**
	% of top 10 in relation to all state agency billings	**76.89%**

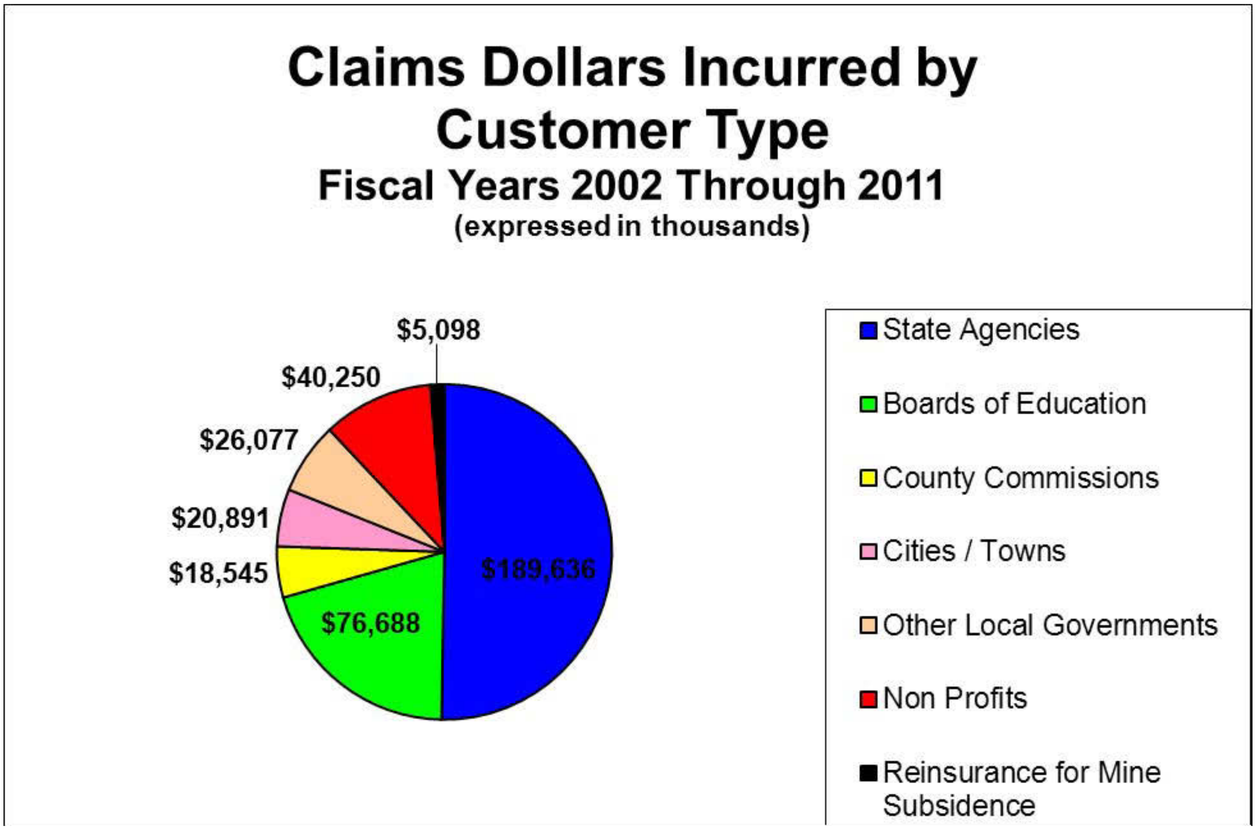
	Top 20 SB 3 Premiums for Fiscal Year 2011	
1	Kanawha County Board of Education	$1,656,392
2	Raleigh County Board of Education	786,530
3	Berkeley County Board of Education	615,430
4	West Virginia University Medical Corporation	588,439
5	Harrison County Board of Education	480,930
6	Mercer County Board of Education	432,543
7	Wayne County Board of Education	429,549
8	Putnam County Board of Education	410,033
9	Cabell County Board of Education	368,031
10	Marion County Board of Education	363,638
11	Monongalia County Board of Education	360,265
12	Jefferson County Commission	341,686
13	Jefferson County Board of Education	330,203
14	City of St. Albans	329,057
15	Wood County Board of Education	327,631
16	Logan County Board of Education	321,267
17	McDowell County Board of Education	296,299
18	Fayette County Board of Education	286,624
19	Charleston-Kanawha Housing Authority	282,149
20	Ohio County Board of Education	280,323
	Total Top Twenty	**$9,287,019**
	Total SB 3 Premium Billing for 2010	**$26,597,596**
	% of top 20 in relation to total SB 3 billings	**34.92%**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
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	-
2010	$ 28,257	$ 27,889	$ 1,861	-
2011	$ 25,239	$ 25,233	$ 2,032	$ 34

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.

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

May 15, 2012

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes February 28, 2012

REPORTS

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

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

May 15, 2012

BOARD MEMBERS:	John R. Lukens, Esquire, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member Martin J. Glasser, Esquire, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Chuck Mozingo, Assistant Claim Manager Jerry Gladwell, Underwriting Manager C. Blaine Nelson, Deputy Underwriting Manager John Fernatt, IT Manager Melody Duke, Controller Jeremy Wolfe, Loss Control Manager Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry "Skip" Morris, Wells Fargo Insurance Services Charles Waugh, Chartis
GUESTS:	Mike Gansor, WVU Risk Management Ed Phillips, WVU Health Sciences Center Brian Carrico, MU School of Medicine Tracy Smith, Marshall University Janet Buckley, Commercial Insurance

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, May 15, 2012, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the February 28, 2012 Board Meeting. The motion was seconded by Vice Chairman 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 Mr. Jones' presentation, he noted that BRIM has received the renewal agreements from West Virginia University and Marshall. There was also a question raised regarding why WVU's interest income was not as much as or higher than that of Marshall. During a brief discussion, it was explained that the difference could be because of several factors, such as a difference in the number of withdrawals or deposits made by each institution, as well as possibly the long periods of time over which an account may be somewhat dormant.

Continuing with his report, Mr. Jones thereafter addressed the claims area. He explained that at any given period of time, there may be over 700 claims in suit, and that industry-wide, the number of claims being received has risen greatly.

Mr. Jones then referred to the area of disaster recovery and the Continuity of Operations (COOP) project. He explained that this is a very crucial program and that if faced with a major catastrophe affecting our physical location, this provides for BRIM to go to a remote location where we can set up shop and continue operating in accordance with a Memorandum of Understanding with another agency. In addition, since we utilize the services of the Office of Technology, they have to prioritize which agencies they are going to recover first, thus enabling State government to continue operating.

John Fernatt and Chuck Mozingo, BRIM's DOA COOP representatives, were called upon to give an update on the Continuity of Operations (COOP) project. During a brief discussion, it was noted there is a huge disconnect between the Office of Technology's expectations, what all the other state agencies should be doing in terms of this backup system at Flatwoods, and what the agencies thought the Office of Technology was doing. Therefore, one of the things being done in this regard is setting up a pilot program to figure out the process by which the Office of Technology and the individual agencies can have the conversation to which John referred. The agencies currently think that the Office of Technology has them "covered" when, in fact, they don't. The Office of Technology has to be told what each agency needs for them to cover. Therefore, our COOP reps are in the process of working to ensure that this exchange of critical information takes place.

Mr. Jones thereafter asked Steve Schumacher, Jerry Gladwell, and Jeremy Wolfe to give brief status reports regarding the RFPs covering areas under their supervision.

After briefly touching upon the upcoming conferences and meetings and personnel-related issues, Mr. Jones asked Mr. Schumacher to present the Chief Financial Officer's Report. The unaudited balance sheet as of March 31, 2012 and the unaudited income statement for the nine months ending March 31, 2012 were received and filed, as were the same reports by line of business, copies of which are attached and made a part of the record.

A CD containing copies of the January, February, and March 2012 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the October, November, and December 2011 billings. The acknowledgement form is 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 2:07 p.m.

____________________________ ____________________________

Board Chairman Date

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Executive Director's Report

May 15, 2012

A. Marshall University and West Virginia University Medical Malpractice Program

- As of May 11, 2012, Marshall has deposited $7,314,382.20 into the (Treasury) escrow account. The year-to-date cumulative interest totals $122,452.10. There have been eleven disbursements totaling $2,150,396.36 during fiscal year 2012 thus far.

- As of May 11, 2012, a total of $15,725,006.67 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $125,996.70. There have been twelve disbursements totaling $3,439,788.87 during fiscal year 2012 thus far.

B. State Agency/Senate Bill #3 Litigation

In March 2012, no cases were tried to verdict. Year-to-date, one case has been tried to a defense verdict. New lawsuits have increased 51.7% over year-to-date 2011, closed lawsuits have decreased 28.8%, and pending lawsuits have decreased 10.8%.

C. Legislation

HB4486 – Insurance Disclosure. This bill will officially be a law effective June 8, 2012. The purpose of this bill is to require certain information pertaining to liability coverage be disclosed to the claimant or his or her attorney within thirty days of a written request.

In its original form, the intent was to include:

1. the insurer's name,
2. the name of each insured,
3. limits of liability,
4. a statement of any policy coverage defense the insurer believes is available, and
5. a copy of the policy.

D. Disaster Recovery/Business Continuity

The Department of Administration, as well as the entire state, relies on the Office of Technology to assist state agencies in recovering in the event of a disaster. For example, BRIM could be subject to two different types of disasters:

1. A disaster that destroys our current office location.

2. A disaster that disables the main servers maintained by the Office of Technology. In any event, the role of government must go on. Claims must be investigated and resolved.

In the first example, BRIM has a plan in place to insure that with minimal delay, we can still operate at a remote location for a period of time until permanent accommodations are obtained. Using laptop computers and cell phones, BRIM can access the state servers, process claims, and underwrite risks as the data is backed up on a daily basis.

The second example is a little more problematic. Should something happen to the state servers operated by the Office of Technology, certain services would be prioritized while others may not happen for a considerable amount of time. Actually, BRIM is working with the Office of Technology using software we have purchased to assist them in formulating their written plan to get the dependent agencies back up and running again. This initiative is being championed by John Fernatt and Chuck Mozingo using the LDRPS Disaster Recovery/Business Continuity software.

E. State Agency Premium Notices for FY 2014 have been provided to all state agencies for budgeting purposes. State agencies were eligible for credits, i.e., 1) Loss Control Incentive Credit, and 2) Privacy Incentive Certification Credit. Senate Bill #3 customers will receive their premium renewal notices shortly.

F. Requests for Proposals

1. Auditing

2. Actuarial Services

3. Underwriting

   a. Building Appraisal Services

   b. Aviation

4. Loss Control

   a. Boiler and Machinery

   b. Medical Malpractice Risk Management

5. Staff Attorney

G. STRIMA

Robert Fisher recently attended the spring Executive Committee Meeting of STRIMA in St. Augustine, Florida.

The annual conference will be held in Austin, Texas from September 16th through September 20th.

H. PRIMA

The 2012 annual conference of the Public Risk Managers Association (PRIMA) will be held at The Gaylord Opryland Resort & Convention Center in Nashville, Tennessee from June 3rd through the 6th. Steve Schumacher and I plan to attend.

I. Miscellaneous

1. Personnel Issues

   a. Loss Control

      Since the last board meeting, we have lost another Loss Control Specialist, Jill Farrar-Brown, to an outside opportunity.

   b. Christine Johnson was selected as the Department of Administration Employee of the Month.

2. Claim Department

   Governor's Intern Program: David L. Long

3. Upcoming presentation at WV Rural Water Conference – Steptoe & Johnson – Bridgeport

4. Upcoming Workers' Comp Conference – Charleston Marriott – May 21-22, 2012 – Robert Fisher, Chuck Mozingo, Blaine Nelson and Jeremy Wolfe will attend.

J. Other Miscellaneous

Recently, Senator Walt Helmick, who won the Democratic nomination for Agriculture Commissioner, announced that he was going to request an investigation of all settlements going back five years in which BRIM has "settled" instead of litigating.

Sincerely yours,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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Chief Financial Officer's Report
May 15, 2012

A. P Card Report

- CD copies contain the supporting detail for "P" card purchases for the first three months of 2012. These totals, by month, are:

January	$60,038.83
February	$45,559.64
March	$73,428.49

- The authorization level for individual "P" card transactions was increased from $5,000 to $10,000 per transaction, effective January 25, 2012. This gives BRIM the ability to pay most claims adjusting bills without issuing individual warrants (i.e., checks) for payments.

B. Financial Report

- The financial results presented are for the nine months ended March 31, 2012 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of March 31, 2012.
- Operating results for the first nine months of the current fiscal year reflect the impact of increasing claims reserves by $7.4 million since June 30th. The reserve additions also increased claims expense by the same amount and is the primary cause for the less favorable operating results compared to a year ago.
- The Fed's stance on maintaining a low interest rate environment through at least 2013 continues to depress yields on U.S. Treasuries and other government backed securities. Concerns over European sovereign debt problems and slower economic growth in the U.S. have also negatively impacted equity market returns in the near term. Lower average yields and the uncertainty in the markets have reduced investment earnings this year.

C. FY'13 Senate Bill 3 Premiums

- The rates for the SB3 program for FY'13 will be finalized by the end of May. Overall, the average FY '13 premium rates will be down about 11% vs. FY'12. It should be noted that both FY'12 and FY'13 rates include significant reductions in the overall premiums billed. The lower premiums for both years are the result of savings being returned to the insureds for favorable prior years' reserve development trends.

D. AIG Update

- On May 4, 2012, American International Group Inc. (AIG) reported net income for the first three months of 2012 of $3.2 billion compared to $1.3 billion during the same period in 2011. First-quarter operating income at Chartis was about $1 billion, compared to a net loss of $424 million last year.
- In March, the Treasury sold about $6 billion of AIG stock that reduced its ownership from 77% down to 70%. Last week the Treasury agreed to sell an additional 188.5 million shares of AIG stock at $30.50 a share, for a total of $5.8 billion, further reducing its ownership stake in AIG from 70% down to 61%.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	March 31	
	2012	**2011**
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 22,156	$ 17,902
Advance Deposit with Carrier/Trustee	204,192	192,349
Receivables - Net	1,111	1,306
Prepaid Insurance	1,385	1,558
Total Short Term Assets	228,844	213,115
Long Term Assets		
Investments	138,794	138,934
Total Long Term Assets	138,794	138,934
TOTAL ASSETS	367,638	352,049
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,983	1,822
Claims Payable	392	145
OPEB Liability	182	181
Agents Commissions Payable	880	978
Unearned Revenue	6,649	7,053
Current Estimated Claim Reserve	49,438	44,898
Total Short Term Liabilities	59,524	55,077
Long Term Liabilities		
Compensated Absences	75	66
Estimated Noncurrent Claim Reserve	84,157	88,949
Total Long Term Liabilities	84,232	89,015
TOTAL LIABILITIES	143,756	144,092
Prior Year Net Assets	219,828	192,207
Current Year Earnings (Deficiency)	4,054	15,750
TOTAL NET ASSETS	223,882	207,957
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 367,638	$ 352,049

DRAFT - Unaudited - Management Purposes Only

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

	March 31	
	2012	2011
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 38,624	$ 39,756
Less - Excess Insurance	(4,088)	(4,555)
Total Operating Revenues	34,536	35,201
Operating Expenses		
Claims Expense	35,283	26,414
Property & MS Claims Expense	3,443	3,511
Personal Services	1,043	1,025
General & Administrative Expense	1,852	1,987
Total Operating Expenses	41,621	32,937
Operating Income (Loss)	(7,085)	2,264
Nonoperating Revenues		
Investment Income	11,139	13,486
Total Nonoperating Revenues	11,139	13,486
Net Income (Loss)	$ 4,054	$ 15,750

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
March 31, 2012
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 4,424	$ 7,024	$ 5,326	$ 5,382	$ 22,156
Advance Deposit with Carrier/Trustee	104,102	100,090	-	-	$ 204,192
Receivables - Net	630	109	372	-	$ 1,111
Prepaid Insurance	533	852	-	-	$ 1,385
Total Short Term Assets	109,689	108,075	5,698	5,382	228,844
Long Term Assets					
Investments	75,878	26,763	36,153	-	138,794
Total Long Term Assets	75,878	26,763	36,153	-	138,794
Total Assets	$ 185,567	$ 134,838	$ 41,851	$ 5,382	$ 367,638
Liabilities					
Short Term Liabilities					
Accounts payable	770	1,171	42	-	1,983
Claims Payable	210	125	57	-	392
OPEB Liability	85	89	8	-	182
Agents Commissions Payable	-	880	-	-	880
Unearned Revenue	-	5,944	705	-	6,649
Current Estimated Claim Reserve	29,529	19,225	684	-	49,438
Total Short Term Liabilities	30,594	27,434	1,496	-	59,524
Long Term Liabilities					
Compensated Absences	36	36	3	-	75
Estimated Noncurrent Claim Reserve	52,659	31,368	130	-	84,157
Total Long Term Liabilities	52,695	31,404	133	-	84,232
Total Liabilities	83,289	58,838	1,629	-	143,756
Prior Year Net Assets	104,908	71,859	37,735	5,326	219,828
Current Year Earnings (Deficiency)	(2,630)	4,141	2,487	56	4,054
Total Net Assets	102,278	76,000	40,222	5,382	223,882
Total Liabilities and Retained Earnings	$ 185,567	$ 134,838	$ 41,851	$ 5,382	$ 367,638

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the nine months ending March 31, 2012
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 19,037	$ 17,744	$ 1,789	$ 54	$ 38,624
Less: Excess Insurance	$ (1,533)	$ (2,555)	$ -	$ -	$ (4,088)
Total Operating Revenues	$ 17,504	$ 15,189	$ 1,789	$ 54	$ 34,536
Operating Expenses					
Claims Expense	23,294	12,038	(49)	-	35,283
Property & MS Claims Expense	1,595	1,435	413	-	3,443
Personal Services	528	461	54	-	1,043
General and Administrative Expense	453	1,380	18	1	1,852
Total Operating Expenses	25,870	15,314	436	1	41,621
Operating Income (Loss)	(8,366)	(125)	1,353	53	(7,085)
Nonoperating Revenues					
Investment Income	5,736	4,266	1,134	3	11,139
Total Nonoperating Revenue	5,736	4,266	1,134	3	11,139
Net Income (Loss)	$ (2,630)	$ 4,141	$ 2,487	$ 56	$ 4,054

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

90 MACCORKLE AVENUE SW, Suite 203
SOUTH CHARLESTON, WV 25303

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www.state.wv.us/brim

Earl Ray Tomblin
Governor

Charles E. Jones, Jr.
Executive Director

Ross Taylor
Acting Cabinet Secretary

LOSS CONTROL REPORT TO THE BOARD
MAY 2012

We will send Loss Control Questionnaires to all state agencies during the month of May. The deadline for submission of these questionnaires to BRIM is August 1, 2012. The information gathered will allow us to assign loss control credits or surcharges for fiscal year 2014.

We have successfully awarded our insurance loss control inspection contract to Aon Global Risk Consulting. This will be a one year contract with an option for two additional years. Aon has provided these services to BRIM for a number of years and we are quite pleased with the level and quality of service they provide to us.

One loss control Request for Proposals (RFP) is still being processed. This RFP is for Boiler, Machinery and Air Conditioning Systems insurance and loss prevention inspection services. Once awarded, this contract will also be a one year contract with an option for two additional years.

During the months of March, April and May, Aon conducted 207 inspections and Chubb conducted 546. The reports are being processed according to established procedures.

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

6 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.

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.

2 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.

326 Senate bill #3 Standards of Participation evaluations were completed during the month of February 2012.

It is worth noting once again that we are operating at a 50% technical staffing level in the Department. We have two openings that need posting and to be filled. Our production figures will continue to reflect lower than normal activity until those positions are filled.

Dated: May 11, 2012

Respectfully submitted,

Robert A Fisher

Robert A Fisher.
Deputy Director *and* Claim Manager

STATE OF WEST VIRGINIA
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charles.e.jones@wv.gov

AGENDA

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

February 28, 2012

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes November 15, 2011

REPORTS

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

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

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

February 28, 2012

BOARD MEMBERS:	John R. Lukens, Esquire, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Chuck Mozingo, Assistant Claim Manager Jerry Gladwell, Underwriting Manager C. Blaine Nelson, Deputy Underwriting Manager John Fernatt, IT Manager Melody Duke, Controller Jeremy Wolfe, Loss Control Manager Carl Baldwin, Loss Control Specialist Jill-Farrar Brown, Loss Control Specialist Stephen M. Fowler, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry “Skip” Morris, Wells Fargo Insurance Services Charles Waugh, Chartis Joanna Valleau, Chartis
GUESTS:	Jim Schneider**,** Marshall University Tracy Smith, Marshall University Sandy Price, WVU Health Sciences Mike Gansor, WVU Risk Management Tom Sauvageot, West Virginia 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 1:05 p.m. on Tuesday, February 28, 2012, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the November 15, 2011 Board Meeting. The motion was seconded by Vice Chairman 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 Mr. Jones' presentation, he asked John Fernatt and Chuck Mozingo, BRIM's DOA COOP representatives, to give an update on the Continuity of Operations (Coop) project to the Board. Afterwards, Mr. Wolfe spoke to the Board about the risk assessments, during which 169 facilities were singled out as needing carbon monoxide detectors.

There being no questions, Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of December 31, 2011 and the unaudited income statement for the three months ending December 31, 2011 were received and filed, as were the same reports by line of business, copies of which are attached and made a part of the record.

A CD containing copies of the October, November and December 2011 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the July, August and September billings. The acknowledgement form is 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

. Mr. Cunningham stated that at the November 15, 2011 meeting, the Board had not voted to accept the June 30, 2011 Actuarial Report and the June 30, 2011 Audited Financial Report presented by the AON and Ernst & Young representatives, respectively. He further stated that these reports should always be voted upon and that such acceptance be a standard practice hereafter.

Accordingly, Mr. Cunningham thereafter moved the acceptance of the actuarial report prepared by AON as a part of the minutes. The motion was seconded by Vice Chairman Martin. There being no further discussion, a vote was taken and the MOTION ADOPTED.

Mr. Cunningham then moved the acceptance of the financial audit report prepared by Ernst & Young, LLP, as a part of the minutes. The motion was seconded by Vice Chairman Martin. There being no further discussion, a vote was taken and the MOTION ADOPTED.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:02 p.m.

John R. [illegible] ~~2~~5/15/12

Board Chairman Date

State of West Virginia
Board of Risk and Insurance Management

Risk Funding Study as of June 30, 2011

Presented November 15, 2011

AON GLOBAL

Marketplace

- STRIMA Cost of Risk Survey for Fiscal Year 2010

- Highlights:
  - Property Loss Rates have been generally stable from FY07 – FY10
  - Tort Liability (GL/EPL/Med Mal) Loss Rates were stable from FY06-08 and then began decreasing

AON GLOBAL

Marketplace

- Aon 2011 Hospital Professional Benchmark Study

- Highlights:
  - Frequency Trends continue at 1% per year
  - Severity Trends continue at 4% per year
  - Hospitals are more frequently employing physicians and integrating them into their self-insurance programs (lower cost of risk but higher administrative costs and increased loss reserving complexities

AON GLOBAL

Loss Emergence

- Total Program fiscal calendar year incurred loss activity was $35 million
    - about equal to FY09/10 incurred loss activity
    - about $6-7 million lower than prior years
- Total Program fiscal calendar year paid loss activity was $39 million
    - About $5-6 million lower than prior years

AON GLOBAL

Loss Emergence

- Actual loss emergence during FY10/11 was <u>better</u> than expected:
  - $6 million on a paid loss basis
  - $14 million on an incurred loss basis
- The Senate Bill #3 GL/Auto program contributed $4.7 million (paid) and $8.1 million (incurred) of the favorable experience
- The SSU GL program also performed well
- The SSU Med Mal program had mixed results

AON GLOBAL

Ultimate Loss Estimates

- Senate Bill #3 Program
  - Total Program decreased by $18 million
  - General Liability decreased by $14 million

- State Spending Units
  - Total Program decreased by $4 million
  - General Liability decreased by $3 million
  - Medical Malpractice increased by $2 million (net of deductible layer)

AON GLOBAL

Unpaid Loss Estimates

- Unpaid Loss = Ultimate Loss – Paid Loss
- Unpaid Loss = Case Reserves + IBNR
- Decreased $9 million (or 7%) since 6/30/2010
  - SB3 GL decreased $8 million
  - SSU Auto decreased $3 million
  - SSU GL increased $1 million
  - SSU Med Mal increased $ 2 million

AON GLOBAL

Line of Business Results

Automobile

- SSU Auto had higher than expected paid loss emergence though better than expected on an incurred loss basis.
- SSU Ultimate loss estimates decreased with the exception of FY08/09.
- SB3 Auto performed better than expected on both a paid loss and incurred loss basis.

AON GLOBAL

Medical Malpractice

- State Spending Units FY08/09 and subsequent ultimate loss estimates increased since 6/30/2010.
- SSU non-zero claim frequency has increased noticeably FY07/08 and subsequent.
- SSU estimated unpaid loss is up slightly compared to 6/30/2010.
- The loss activity in the WVU/Marshall deductible layer was $5.6 million (paid) and $5.2 million (incurred).
  - Deductible layer is beginning to mature
- Senate Bill #3 entities continue to have little loss activity.

AON GLOBAL

General Liability

State Spending Units

- Unpaid loss estimates increased $1.2 million
- Ultimate loss estimates increased for FAY09/10 & 10/11
- Higher level of claim count activity from the penal institution coverage
- FAY10/11 penal institution incurred loss = $2.1 million

AON GLOBAL

General Liability

Senate Bill #3

- Incurred loss activity has been low for the past 3 fiscal years
- Not entirely unexpected given 40% decrease in premium volume
- Watching FAY10/11 due to high level of reported claim counts
- Continued favorable experience resulted in $8 decrease in unpaid loss

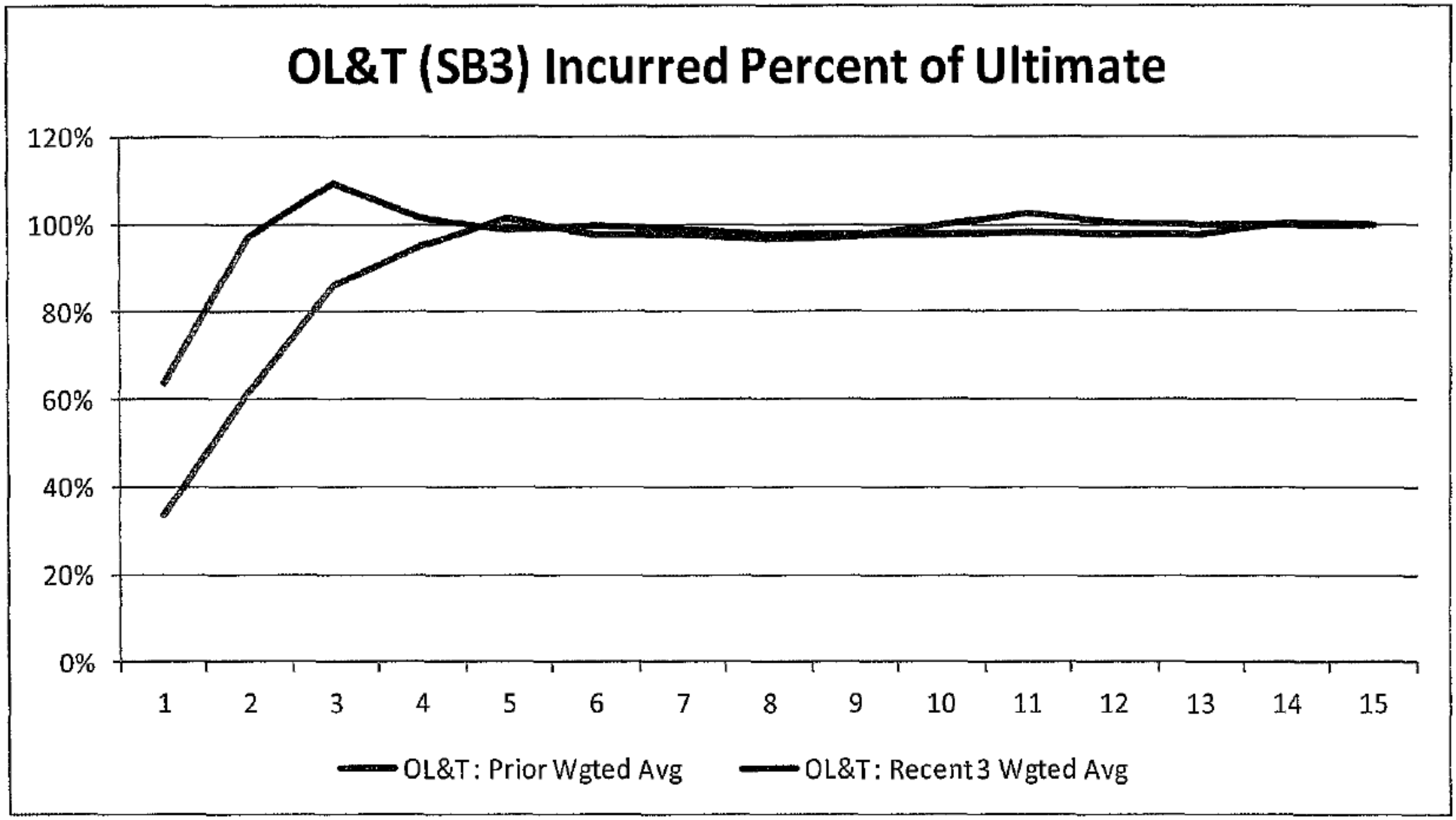
AON GLOBAL

General Liability

Senate Bill #3

- Old News:
  - Senate Bill #3 Entities report and pay loss faster than State Spending Units.
  - SB3 GL Claim Frequency significantly declined until FAY10/11
- New News:
  - Losses are being paid and reported faster
  - Case Reserves appear to have been strengthened beginning in FY 06

General Liability



AON GLOBAL

General Liability

OLT & MC (Litigated & Non-Litigated)						
1995						
1996						
1997						14,946
1998					46,783	25,730
1999				32,757	83,566	103,607
2000			31,212	34,815	32,398	23,573
2001		26,938	31,693	21,034	64,806	49,785
2002	6,027	41,328	22,433	32,653	57,082	6,667
2003	8,494	26,437	34,533	55,162	60,592	64,396
2004	9,763	22,891	43,133	51,723	53,058	76,526
2005	8,398	22,227	50,006	29,813	27,810	37,048
2006	15,618	64,805	67,146	44,629	52,169	
2007	17,312	50,681	37,090	48,885		
2008	12,393	52,443	45,802			
2009	18,396	34,938				
2010	18,263					

AON GLOBAL

General Liability

Senate Bill #3

- Impact:
  - Changes in case reserve adequacy tend to distort methods that rely on case reserves
  - Changes in settlement patterns tend to distort methods that rely on paid losses
- So what is an actuary to do?
  - Rely less on methods that depend on historical loss development patterns
  - Give more recognition to fact that past patterns may not appropriate to estimate future loss emergence

AON GLOBAL

Property

- Property FY10/11 was favorable
- There are two open $500,000 property claims:
  - SSU Water Damage claim in FY09/10
  - SB3 4-H claim in FY11/12

Other Exposures

- Mine Subsidence continues to run at a favorable loss ratio (average = 26% over the past 9 years).
- The non-novated portion of the HB 601 program had no open claims as of June 30, 2011. The IBNR provision is now zero.
- There are no pending claims against the Patient Injury Compensation Fund. No reserve is needed as of June 30, 2011 based on the “claims filed” nature of the PICF.
- The PICF has paid about $1.4 million since its inception.

AON GLOBAL

September Update

- Overall, unpaid loss estimates decreased $9 million or 7% between June 30, 2010 and June 30, 2011

- Unpaid loss estimates increased $4.4 million or 3.5% between June 30, 2011 and September 30, 2011.

- Drivers of the increase:
  - SSU General Liability $2.8 million
  - SSU Med Mal $ 1.0 million
  - Result of case reserve increases on prior year open claims
  - Additional IBNR reserves added to SSU GL 2001/02 and prior years

AON GLOBAL

West Virginia Board of Risk and Insurance Management

2011 audit results and communications

Ernst & Young
Quality In Everything We Do

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

November 9, 2011

Dear Members of the Board of Directors and Management:

We are pleased to present the results of our audit of the 2011 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 2011 financial statements. We considered 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.

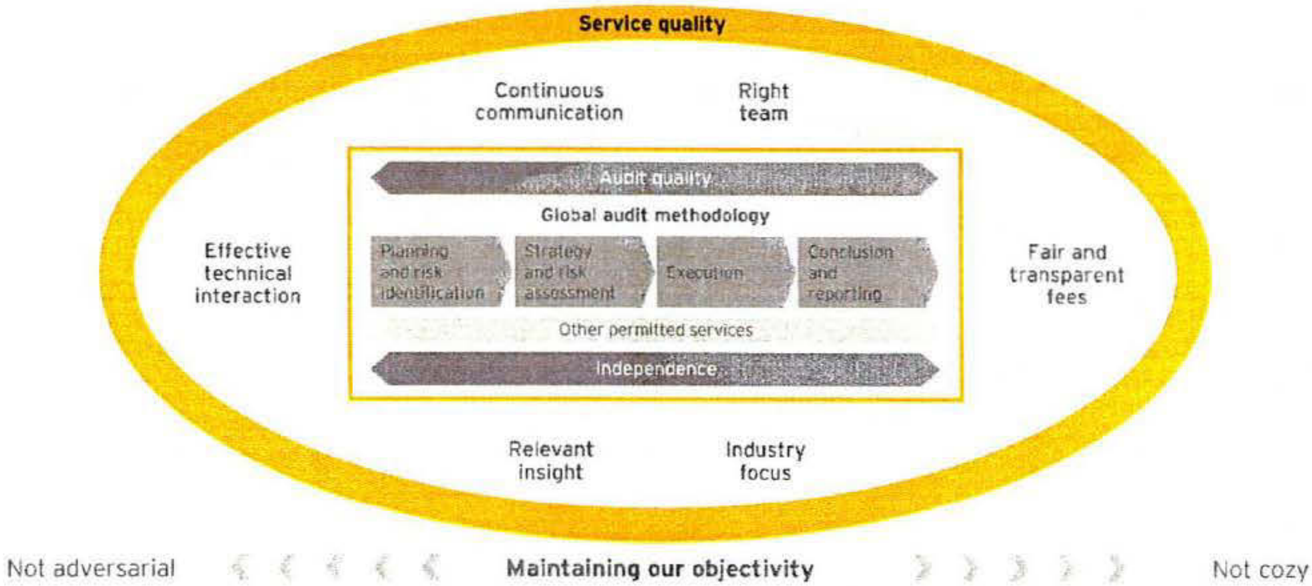
Very truly yours,

Robert D. Johnson
Partner

Contents

2011 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 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.

Required communications

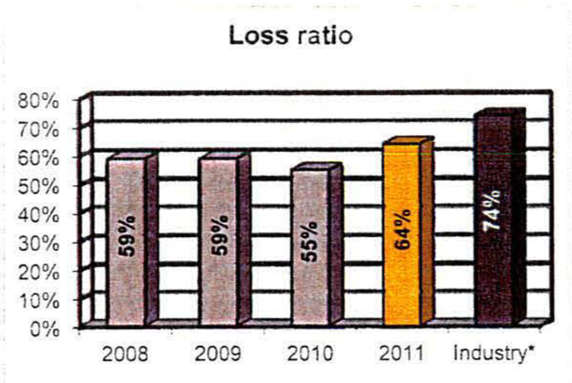
Professional standards require the auditor to communicate certain matters to the Board of Directors that may assist the Board in overseeing management's financial reporting and disclosure process. Below we summarize these communications.

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, as established by the American Institute of Certified Public Accountants, to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we will express no such opinion.	Our responsibilities are included in our audit engagement letter. A copy of the agreement is included in Appendix B. We issued an unqualified opinion on BRIM's financial statements for the year ended June 30, 2011.
Overview of planned scope and timing	We discussed the planned scope and timing with Stephen Schumacher, CFO.
Other information in documents containing audited financial statements	EY conducted our audit for the purpose of forming an opinion 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 the 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.
Our views about the qualitative aspects of the Company's significant accounting practices	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 the financial statements, which included related disclosures. Management continues to utilize accounting policies that are consistent with the prior year and industry standards.
The adoption of, or a change in, an accounting policy	No new significant accounting pronouncements were required to be adopted.
Methods of accounting for significant unusual transactions and for controversial or emerging areas	We are not aware of any significant transactions recorded by BRIM based on significant accounting policies used by BRIM in controversial or emerging areas for which there is a lack of authoritative guidance.

Area	Comments
Sensitive accounting estimates	We noted the following material accounting estimates: ▸ Unpaid claims 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.
Critical accounting policies and practices	We have considered management's critical accounting policies and practices in our audit of the basic financial statements and related footnotes. We deem the related disclosures to be appropriate at June 30, 2011.
Significant difficulties encountered in dealing with management when performing the audit	None.
Unrecorded misstatements	There were no unrecorded audit differences for the 2011 audit.
Material corrected misstatements	There were no material corrected misstatements brought to the attention of management.
Disagreements with management	None.
Representations we are requesting from management	A copy of the representation letter signed by management is included in Appendix C.
Management's consultation with other accountants	None of which we are aware.
Significant issues, if any, arising from the audit that were discussed, or the subject of, correspondence with management	None.
Communication of independence matters	There are no matters that, in our professional judgment, may reasonably be thought to bear on our independence or that we gave significant consideration to in reaching the conclusion that independence has not been impaired.
Fraud and illegal acts involving senior management and fraud and illegal acts 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.
Significant deficiencies and material weaknesses in internal control	No material weaknesses were identified.
Other findings or issues regarding the oversight of the financial reporting process	There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

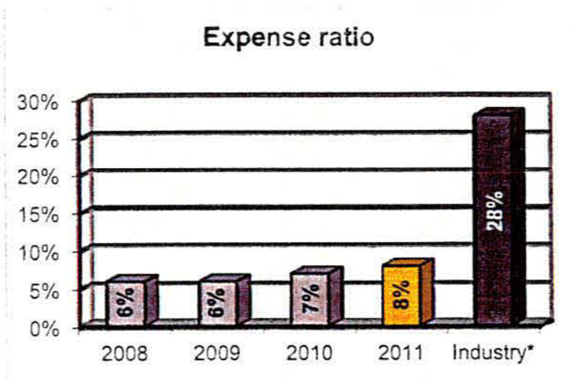
Industry analysis

Ratio comparison



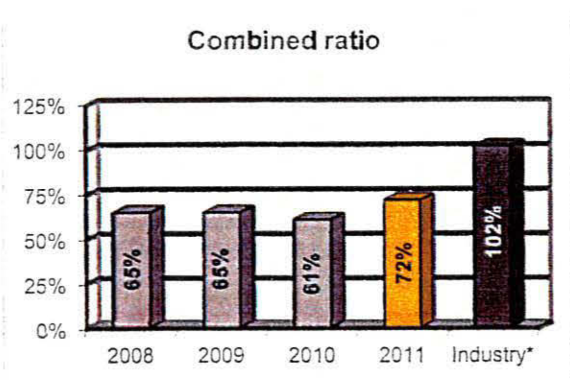
The loss ratio measures claims cost experience. It is derived by dividing claims and claims adjustment expenses by earned premiums. This ratio can soar during a period of heavy catastrophe losses.

The 2011 loss ratio has increased since the prior year due to both an increase in expenses ($1.9 million) and a drop in premiums ($5.5 million). The increase brings the loss ratio into a range more comparable to the industry average than in prior years.



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 2011 expense ratio has remained relatively consistent with the previous years.



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 2011 combined ratio has increased compared to the previous years due to the loss ratio factor discussed above.

Industry data obtained from Standard & Poor's Industry Surveys, Insurance: Property/Casualty, September 22, 2011.

Industry trends

Source: Standard & Poor's Industry Surveys, Insurance: Property/Casualty, September 22, 2011.

The property-casualty insurance industry has emerged from the credit crisis and the "Great Recession" relatively unscathed—both financially and from a regulatory standpoint—especially when compared to other financial institutions. However, the industry remains awash in excess underwriting capacity. That, coupled with a still weak (albeit slowly recovering) economy, has continued to exert downward pressure on premiums rates for most lines of coverage during 2010.

Underwriting results in 2010 were relatively unchanged, as forecasts for an above-average catastrophe season in 2010 never came to fruition (at least in the United States). Investment results in 2010 were mixed, as persistently low interest rates continued to pressure net investment income. However, a recovery in most areas of the bond market helped fuel an improvement in investment gains.

Finally, while most lines of insurance coverage did not experience any dramatic swings in underwriting results, a few lines of coverage have garnered additional attention recently.

Investment gains offset underwriting losses for insurers in 2010

After peaking in 2006, industry underwriting results and profitability declined in the next four and a half years, according to the Insurance Services Office, Inc. (ISO), an industry research group. Thanks to significantly lower catastrophe claims and 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 ISO.

Against that backdrop, year-over-year comparisons in 2007 were difficult, but the industry managed to post a $19.3 billion net underwriting gain. Underwriting results in 2008 were impaired by significantly higher catastrophe losses and marked erosion in investment results. As a result, net income plunged 95%, to just over $3.0 billion in 2008, from $62.5 billion in 2007. In 2009, insurers' net income surged to $28.7 billion, amid lower catastrophe losses and a recovery in investment results.

For 2010, insurers in the ISO study reported a fractional decline in net written premiums to $422.1 billion from $418.4 billion in 2009. (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.

- **Personal lines.** Written premiums in the personal lines sector (the industry's largest, accounting for 42% of total industry written premiums) advanced 3.3%, year over year, in 2010. 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 has remained intense.
- **Commercial lines.** Offsetting the modest advance in personal lines premiums was a greater degree of deterioration in the commercial lines sector (which accounted for 35% of total industry written premiums) during 2010. That group reported a 2.7% year-over-year drop in written premiums, providing empirical support for anecdotal evidence that the commercial lines market remains highly competitive amid excess underwriting capacity and lackluster demand due to a weak economy.

- Balanced lines. Balanced lines underwriters, who write a combination of personal and commercial lines coverage, accounted for the remaining 23% of total industry written premiums. This group posted a 2.1% rise in written premiums during 2010.

Earned premiums for insurers in the ISO study also declined fractionally, to $420.5 billion in 2010, compared with $422.3 billion in 2009. This decline, though modest, represented a marked contrast to the double-digit rise in premiums that occurred in the "hard market" that ensued in the aftermath of the September 11 terrorist attacks: earned premiums advanced 11.9% in 2002, 10.9% in 2003, and 7.1% in 2004. Growth subsequently trended downward, and earned premiums declined in both 2008 and 2009.

Investment results paint a mixed picture

Investment income is an important revenue source for insurers, often accounting for 15%-20% or more of an insurer's total revenues historically. Investment results during 2010 were mixed, as persistent low investment yields pressured investment income. However, equity and fixed income markets recovered from the credit crisis-induced selloff in 2009, enabling insurers to recoup some of the lost value of their investment holdings. However, unrealized investment gains declined significantly in 2010, ending the year at $15.6 billion, down sharply from $23.1 billion in 2009.

PREMIUM VOLUME AND UNDERWRITING RATIOS FOR THE TOTAL US PROPERTY-CASUALTY INDUSTRY

YEAR	NET PREMIUMS WRITTEN (MILLIONS OF DOLLARS)	NET PREMIUMS EARNED (MILLIONS OF DOLLARS)	‡LOSS RATIO (%)	†EXPENSE RATIO (%)	DIVIDEND RATIO (%)	COMBINED RATIO (%)
2010	422,065	420,506	73.5	28.3	0.5	102.4
2009	418,365	422,302	72.5	28.0	0.5	101.0
2008	434,930	438,316	77.1	27.5	0.4	105.0
2007	440,583	438,908	67.7	27.3	0.6	95.5
2006	443,460	435,484	65.2	26.4	0.8	92.4
2005	425,500	417,635	74.6	25.8	0.4	100.9
2004	424,089	413,777	72.7	25.2	0.4	98.3
2003	404,432	386,327	74.7	24.9	0.5	100.1

‡Incurred to premiums earned. †Incurred to premiums written.

Source: Insurance Services Office.

Consequently, net investment income for property-casualty insurers inched up fractionally, to $47.2 billion in 2010, from $47.1 billion in 2009.

Realized investment gains (recognized when investments are sold) staged a dramatic turnaround in 2010 (driven mainly by a narrowing of credit spreads), to more than $5.7 billion. This contrasts rather sharply with the more than $7.9 billion of realized investment losses incurred by the industry in 2009. However, unrealized gains plummeted rather sharply in 2010 to $15.6 billion from $23.1 billion in 2009. (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 slightly during 2010

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 bottom-line results.

Insurers in the ISO survey reported a modest deterioration in loss trends during 2010. Incurred losses increased 1.1% to $256.5 billion, from $253.8 billion in 2009. Loss and loss adjustment expenses (the costs incurred in settling claims) inched up fractionally to $52.6 billion from $52.5 billion. The deterioration in underwriting results was largely due to an increase in catastrophe losses, which totaled $14.3 billion for US insurers, up from $11.6 billion in 2009. Consequently, loss ratios for most property-based lines of coverage (homeowners, commercial multi-peril, fire) inched upward in 2010. Loss costs in a number of major casualty lines of coverage also increased at a faster rate than premiums rose, which also squeezed underwriting margins. The hardest-hit lines of coverage were workers compensation and general liability lines of coverage, while medical malpractice lines of coverage experienced improved claim 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. (For more information on the combined ratio and its implications for insurer profitability, please refer to the "How to Analyze a Property-Casualty Insurer" and "Key Industry Ratios" sections of this Survey.) Insurers in the ISO study reported a combined ratio of 102.4% for 2010, compared with 101.0% in 2009.

Underwriting results varied by type of insurer. Personal lines writers experienced a slight improvement in underwriting results, as evidenced by their 2010 combined ratio of 101.3%, versus 101.5% in 2009. Commercial lines underwriters saw the most dramatic deterioration in their underwriting results, with a combined ratio of 104.7% in 2010, compared with 101.1% in 2009. This group's results were impacted by a number of factors, including ongoing weakness in the mortgage and financial guaranty marketplace (although year-to-year comparisons improved). When mortgage and financial guaranty results were excluded, commercial lines underwriting results were still modestly unprofitable, with a combined ratio of 100.8% in 2010, compared with 99.3% in 2009. Underwriting results were generally weaker across the board in commercial lines, reflecting deterioration in both property and casualty lines of coverage.

Balanced lines underwriters, which write both commercial and personal lines of coverage, also experienced a modest deterioration in underwriting results in 2010, evidenced by their combined ratio of 100.8%, versus 99.8% in 2009.

Loss ratios for this representative group of insurers (accounting for approximately 96% of industry premium volume) equaled 73.5% in 2010, compared with 72.5% in 2009. Again, these results reflected the impact of improved personal lines claim trends, partly offset by a general deterioration in claim trends for most commercial lines of coverage. These results also included loss adjustment expenses (LAE).

Personal lines insurers posted a loss ratio of 75.5% in 2010, versus 75.8% in 2009. Commercial lines insurers reported the most significant deterioration in their loss ratios during 2010, with a loss ratio of 73.7%, versus 71.5% in 2009. Balanced lines underwriters also experienced a slight deterioration in their loss ratios, which equaled 69.5% in 2010, compared with 68.3% in 2009.

Industry expense ratios inched up slightly during 2010, largely due to a declining premium base, as insurers continued to implement cost-cutting measures. Still, expense ratios have been climbing steadily since 2003, when they ended the year at 24.9%. Results were mixed by product line, as expense ratios for personal lines insurers remained unchanged at 25.1% at the end of 2010 compared to year-end 2009. Commercial lines insurers saw the most dramatic rise in their expense ratios, to 30.5% in 2010, from 29.2% in 2009. Balanced lines underwriters experienced a slight improvement in their expense ratios, which ended 2010 at 31.0%, down slightly from 31.2% in 2009.

Finally, the dividend ratio ended 2010 at 0.5%, unchanged from a year ago. Results did not differ materially among types of underwriters.

Surplus remains abundant

Surplus, in this instance, refers to capital, or net worth: the amount by which an insurer's assets exceed its liabilities. Surplus–often referred to as statutory surplus under statutory accounting principles (SAP)–is analogous to shareholders' equity under generally accepted accounting principles (GAAP). At December 31, 2010, insurers in the ISO study reported a combined surplus of $556.9 billion, up nearly 9% from $511.4 billion at December 31, 2009.

The 9% increase in surplus was driven by a number of factors, including $27.4 billion in new funds–a record for funds inflow that was driven by a $22.5 billion intercompany contribution to an insurer by its parent holding company. As a result of this increase, industry leverage continued to trend downward. [In this instance, leverage refers to the degree to which the industry utilizes its capital (or surplus) to underwrite policies.] The ratio used to measure leverage is the ratio of new written premiums to surplus. (For a more detailed explanation of leverage, please refer to the "How to Analyze a Property-Casualty Insurance Company" section of this Survey.)

ESTIMATED CHANGES IN POLICYHOLDERS' SURPLUS
(Total property-casualty industry, in billions of dollars)

ITEM	2008	2009	2010
Policyholders' surplus—beg. of period	517.9	457.3	511.4
Operating income	30.6	45.0	37.8
Realized capital gains	(19.8)	(7.9)	5.7
Income taxes	(7.8)	(8.4)	(8.9)
Net after-tax income	3.0	28.7	34.7
Unrealized capital gains (loss)	(52.9)	23.1	15.6
Stockholder dividends & other	(24.1)	(16.9)	(31.0)
New funds	12.3	6.6	27.4
Misc. surplus change	1.1	12.6	(1.2)
Policyholders' surplus—end of period	457.3	511.4	556.9

Source: Insurance Services Office.

The ratio of net written premiums to surplus equaled 0.76-to-1 at December 31, 2010 (a record low), and down from 0.82-to-1 at December 31, 2009, and 0.95-to-1 at December 31, 2008. In other words, in the 12 months ended December 31, 2010, insurers wrote $0.76 worth of premiums for every $1 of surplus, versus $0.82 and $0.95 worth of premiums, respectively, for every $1 of surplus in the earlier periods. If we assume a "typical" rate of leverage of 2-to-1 (which is what regulators usually allow), we estimate that the industry had approximately $346 billion of "excess" surplus at December 31, 2010, compared with our estimate of $302 billion of "excess" surplus at December 31, 2009.

We arrived at this conclusion by using the following 2010 data points: the $422.1 billion in net written premiums in the 12 months ended December 31, 2010, and policyholders' surplus of $556.9 billion at December 31, 2010. If we assume a 2-to-1 leverage ratio, the amount of surplus required to support the actual level of premium volume is approximately $211.1 billion ($422.1 billion divided by 2). The difference between actual surplus ($556.9 billion) and so-called required surplus ($211.1 billion) is $345.8 billion. Put another way, this excess surplus could theoretically support another $691.6 billion of written premiums, more than the industry is currently writing on an annual basis!

Although we need to qualify this exercise as one designed to illustrate the degree to which the industry has excess capital, we do it to make the point that at December 31, 2010, there remained an enormous amount of excess capital in the insurance marketplace.

Catastrophe losses worldwide rose in 2010; continue to remain elevated in 2011

According to data compiled by the Property Claim Services Unit of the Insurance Services Office Inc. (ISO), an industry research group, insured catastrophe losses in the US totaled $14.3 billion in 2010, up from $11.6 billion in 2009, but down from $27 billion in 2008. This followed a brief respite from heavy catastrophe losses in 2007 and 2006. (Catastrophes are defined as natural or man-made disasters that cause at least $25 million in insured losses.) Insured catastrophe losses totaled $6.7 billion in 2007, down from $9.5 billion in 2006 and significantly below the $66.1 billion of insured catastrophe losses in 2005. (All amounts are in 2007 dollars.)

A study published in mid-December 2010 by Aon Benfield, the reinsurance intermediary and consultant, pegged total worldwide economic losses from natural catastrophes in 2010 at $252 billion. Aon Benfield estimated insured worldwide catastrophe losses to be around $38 billion. The significant difference between total economic losses and insured losses reflects the nature of 2010's catastrophe losses: many occurred in areas that were underinsured or uninsured. The most significant insured event in 2010 was the Chilean earthquake on February 27. Insured loss estimates from that catastrophe were $8 billion as of mid-2011.

Catastrophes continued to take their toll during the first half of 2011. According to data obtained from the Insurance Information Institute, insured losses from catastrophes worldwide totaled $60 billion, while economic losses from these same disasters totaled $265 billion. The March 11, 2011, earthquake and tsunami in Japan accounted for some $30 billion of the insured losses and for $210 billion of the economic losses incurred during this period.

Within the United States, insured catastrophe losses for the first half of 2011 were estimated at $17.8 billion, more than the $13.6 billion in insured catastrophe losses reported for all of 2010. Severe thunderstorms that impacted many regions of the country in the late spring accounted for some $16 billion of these insured losses.

Hurricanes and tropical storms have historically comprised the majority of catastrophe losses. According to data obtained from the Insurance Information Institute (III), a research and trade association, hurricanes and tropical storms comprised 45% of total catastrophe losses from 1990 to 2009. Tornados accounted for 29% of catastrophe losses during this period, winter storms about 7%, terrorism 7%, earthquakes and other geologic events 5%, wind/hail/flood 3%, and fire 2%. Other events (including civil disorders, water damage, and utility services disruption) were responsible for the remaining 2%.

Forecasts of an "above average" hurricane season in 2010 proved accurate, with 19 named storms, of which 12 developed into hurricanes. However, most of these storms made landfall outside the US. The 2009 hurricane season was marked by "below average" Atlantic storm activity, with only nine named storms, of which only three developed into hurricanes. During the 2008 Atlantic hurricane season, there were 16 named storms and nine hurricanes. Hurricane Ike, which caused approximately $10.7 billion of insured losses (in 2008 dollars), was the costliest of the season.

Forecasters from Colorado State University (CSU) are predicting another "active" hurricane season for 2011. CSU researchers William Gray and Phil Klotzbach estimate there will be 17 named storms during the 2011 hurricane season (which stretches from June 1 to November 30), of which nine are expected to strengthen into hurricanes. This compares with a 50-year average of 9.6 named storms and six hurricanes. The forecasters cited a transition from El Niño (a weather pattern credited with suppressing hurricane formations) to more neutral conditions, together with a continuation of unusually warm sea-surface temperatures in the tropical Atlantic.

Affordability, availability of coverage still an unresolved issue

One of the more pressing issues that both public and private sector entities must address is the issue of affordability and availability of property insurance (typically homeowners' coverage) in storm-prone areas. Exacerbating the coverage gaps are the exclusions for flood and earthquake damage that are standard on most homeowners' insurance policies. In other words, not only is coverage in a number of coastal areas difficult to obtain, but most homeowners' policies also don't cover most catastrophe-related damages. As coastal areas are developed and become more densely populated, the potential for and magnitude of storm losses increase significantly. Indeed, Census Bureau data indicated that in 2008, Atlantic hurricanes seriously threatened 35.7 million people, versus 10.2 million people in 1950. Couple this with insurers' need to preserve capital and mitigate risk by reducing their exposure to these storm-prone coastal areas, and an insurance crisis is born.

In the aftermath of the 2005 hurricane season, a number of government-sponsored initiatives began to gain traction in an attempt to alleviate what was becoming a crisis in availability and affordability of homeowners' insurance. Following a study of these various initiatives, however, the Government Accountability Office (GAO) concluded that there is no perfect solution for the inherent conflicts between homeowners, who want affordable insurance protection, and taxpayers, who would potentially foot the bill for catastrophic damages.

Many of the proposals sought to reduce the disputes over whether damage was caused by wind or flood. The challenge, however, is that many of the initiatives would not likely be profitable; in essence, they would be a de facto subsidy to residents in storm-prone areas. This in turn would discourage the private insurance market from insuring these areas, further reducing accessibility of coverage. Most of the proposed legislative initiatives failed to gain enough traction in the midst of an election year and in the wake of the financial crisis—as of late 2010—these initiatives did not seem to be gaining much traction.

Perhaps the most visible of the legislative initiatives was The Homeowners Defense Act (H.R. 2582), which was re-introduced in the House in 2011. The bill was referred to the House Committee on Financial Services on July 19, 2011. This proposal would allow states to transfer the risk of catastrophic natural disasters from state-run insurance entities (like the Florida Citizens Property Insurance Corporation) to the private market, presumably with some sort of a federal backstop. The White House has criticized many of these measures as not appropriately addressing the issue of overbuilding in coastal areas and has categorized many of the problems as "self inflicted." Many state-based programs, like those in Florida and other states with significant coastal areas, seek to address the availability and affordability of insurance, rather than the underlying issue of overdeveloped coastal areas.

TRIA provides a federal backstop

Although losses from natural disasters like Hurricanes Katrina, Rita, and Wilma have made headlines in recent years, insurers have also had to contend with man-made disasters, including terrorist attacks. Insured losses from the September 11 terrorist attacks (which included property damage, business interruption coverage, commercial liability, and group life insurance claims) totaled $35.9 billion (in 2006 dollars), according to data obtained from the Insurance Information Institute. Reinsurers covered approximately two-thirds of these losses.

Before September 11, 2001, insurers typically provided terrorism coverage to their commercial insurance policies at essentially no additional cost because the risk of such an event on US soil was considered remote. In the aftermath of the unprecedented losses from the 9/11 attacks, however, many insurers and reinsurers instituted "terrorism exclusions" in a number of their policies. Those insurers who did offer terrorism coverage did so at premium rates that were prohibitively expensive. The US business community argued that a lack of coverage was hindering the economic recovery and threatening certain business sectors.

To alleviate the market dislocation, the Terrorism Risk Insurance Act (TRIA) was passed and signed into law in November 2002. The legislation set up a federal reinsurance program in which insurers and the federal government would share losses. At the time of its passage, the law was seen as a transition until a market- based solution could be created. In December 2005, however, it was extended for another two years amid a continued shortage of available reinsurance for insurers to lay off their risks.

TRIA's extension in 2005, made with the support of a last-minute lobbying campaign from industry groups and other business leaders, left the industry still searching for longer-term alternatives to terrorism coverage. Before the elections in November 2006, the Bush Administration said that it would not support another extension of the program. The US Department of the Treasury, the program's administrator, argued that the program would hinder development of coverage in the private market. Reports published in late 2006 by the US Government Accountability Office and the President's Working Group on Financial Markets echoed these sentiments and said that the continuation of TRIA would hinder the formation of a meaningful, private market solution to the lack of terrorism insurance. These criticisms notwithstanding, TRIA was extended again in late 2007, with an expiration date of December 31, 2014.

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

West Virginia Board of Risk and Insurance Management

Financial Statements, Required Supplementary Information, and Other Financial Information

Years Ended June 30, 2011 and 2010

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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 basic financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), an enterprise fund of the State of West Virginia, as of June 30, 2011 and 2010, and for the years then ended, as listed in the table of contents. 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 the 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 opinion.

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, 2011 and 2010, 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, 2011 and 2010, 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 17, 2011, 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 2011 audit.

Management's Discussion and Analysis on pages 3 through 10 and the unaudited supplemental schedules of Ten-Year Claims Development Information on page 44 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion 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.

Ernst + Young LLP

October 17, 2011

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, 2011, 2010, and 2009. BRIM provides property and casualty insurance to State of West Virginia (the State) agencies and Senate Bill 3 (SB3) entities, 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 U.S. generally accepted accounting principles (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

(Dollars in Thousands)

The following tables summarize the financial position and the results of operations as of and for the years ended June 30, 2011, 2010, and 2009:

	2011	2010	2009	Change 2011–2010 Amount	Change 2011–2010 Percent	Change 2010–2009 Amount	Change 2010–2009 Percent
Cash and cash equivalents	**$ 23,231**	$ 29,613	$ 32,181	$ (6,382)	(22)	$ (2,568)	(8)%
Advance deposits with carrier/trustee	**189,211**	184,926	174,215	4,285	2	10,711	6
Receivables	**934**	1,349	1,003	(415)	(31)	346	34
Prepaid insurance	**38**	–	–	38	–	–	–
Total current assets	**213,414**	215,888	207,399	(2,474)	(1)	8,489	4
Noncurrent investments	**140,522**	120,331	105,461	20,191	17	14,870	14
Total assets	**353,936**	336,219	312,860	17,717	5	23,359	7
Estimated claim expense	**43,259**	45,707	48,650	(2,448)	(5)	(2,943)	(6)
Unearned premiums	**6,095**	6,629	7,235	(534)	(8)	(606)	(8)
Agent commissions payable	**1,097**	1,230	1,247	(133)	(11)	(17)	(1)
Accrued expenses	**614**	659	629	(45)	(7)	30	5
Total current liabilities	**51,065**	54,225	57,761	(3,160)	(6)	(3,536)	(6)
Estimated claim expense	**82,968**	89,721	104,083	(6,753)	(8)	(14,362)	(14)
Compensated absences	**75**	66	58	9	14	8	14
Total noncurrent liabilities	**83,043**	89,787	104,141	(6,744)	(8)	(14,354)	(14)
Total liabilities	**134,108**	144,012	161,902	(9,904)	(7)	(17,890)	(11)
Net assets:							
Restricted	**43,061**	38,420	33,924	4,641	12	4,496	13
Unrestricted	**176,767**	153,787	117,034	22,980	15	36,753	31
Net assets	**$ 219,828**	$ 192,207	$ 150,958	$ 27,621	14	$ 41,249	27%

	2011	2010	2009	Change 2011–2010 Amount	Change 2011–2010 Percent	Change 2010–2009 Amount	Change 2010–2009 Percent
Premiums	$ 52,538	$ 58,007	$ 62,427	$ (5,469)	(9)	$ (4,420)	(7)%
Less excess coverage	(6,075)	(6,257)	(5,944)	(182)	(3)	(313)	(5)
Net operating revenues	46,463	51,750	56,483	(5,287)	(10)	(4,733)	(8)
Claims and claims adjustment expense	33,598	31,668	36,604	1,930	6	(4,936)	(13)
General and administrative	4,026	3,946	3,894	80	2	52	1
Total operating expenses	37,624	35,614	40,498	2,010	6	(4,884)	(12)
Operating income	8,839	16,136	15,985	(7,297)	(45)	151	1
Nonoperating revenues:							
Investment income	18,782	25,081	7,312	(6,299)	(25)	17,769	243
Financing income	–	32	31	(32)	–	1	3
Total nonoperating revenues, net	18,782	25,113	7,343	(6,331)	(25)	17,770	242
Changes in net assets	27,621	41,249	23,328	(13,628)	(33)	17,921	77
Total net assets – beginning	192,207	150,958	127,630	41,249	27	23,328	18
Total net assets – end	$ 219,828	$ 192,207	$ 150,958	$ 27,621	14	$ 41,249	27
Total revenues	$ 65,245	$ 76,863	$ 63,826	$ (11,618)	(15)	$ 13,037	20
Total expenses	$ 37,624	$ 35,614	$ 40,498	$ 2,010	6	$ (4,884)	(12)%

- Total assets increased $17,717 in 2011 and increased $23,359 in 2010. The increases for both years can be attributed to investment returns on long-term investments holdings. Also, the combined total of the additions to advance deposits and the earnings on the trust funds invested in both 2011 and 2010 exceeded the actual claims payments made during both years.

- Total liabilities decreased $9,904 in 2011 and decreased $17,890 in 2010. The decreases for both years relate to trending refinements in the loss development model that favorably impacted the prior years' general liability and automobile claims reserves, mostly within the SB3 program, and reduced the ultimate loss estimates for these segments.

- Several factors contributed to the two-year increase of $68,870 in total net assets since June 30, 2009. Investment returns of $18,782 in 2011 and $25,081 in 2010 contributed to the improvement. Also, the anticipated costs incurred to fully recover the actuarially estimated losses and program expenses that were initially included for the State and Senate Bill 3 (SB3) premium rates in prior years were later determined to be substantially less than what had been originally projected for several earlier rating periods for both programs. Most of this reduction is reflected in the overall decrease in the provisions for prior years' outstanding estimated claims reserves in 2011 and 2010. This net reduction in claims reserves had a positive impact on net assets of approximately $26,500 over the last two years combined. Within the net asset totals shown are restricted assets totaling $43,061 in 2011, $38,420 in 2010, and $33,924 in 2009 for programs that provide mine subsidence coverage to the general public per the West Virginia State Code and that provide medical malpractice tail coverage for the House Bill 601 Program.

- Total net operating revenues decreased by $5,287 in 2011 and by $4,733 in 2010. The decrease is due to a reduction in premium rates which is reflective of the overall improvement in the trend in claims development and a reduction in premiums for the recovery of previously billed premium surcharges.

- Total operating expenses increased to $37,624 in 2011 from $35,614 in 2010. Claims and claims adjustment expense increased year over year by $1,930 primarily because the provision for current year reserves in 2011 was $2,340 higher than the previous year's provision for current year reserves recorded in 2010. However, this increase was partially offset by a decrease in the actuarially determined outstanding retained reserves for prior years' claims liabilities. The decreases in the provision for insured events of prior fiscal years significantly contributed to the lower operating expense levels for both years.

- Nonoperating revenues decreased by $6,331 in 2011 when compared to 2010 whereas there was an increase of $17,770 in 2010 versus 2009. These yearly fluctuations mirror the overall investment returns and valuation changes resulting from recording the investments at fair value.

- Total revenues and total expenses from 2011 to 2010 and from 2010 to 2009 have fluctuated due to the year-over-year reductions in premium rates, the changes in the retained loss estimates and the variations in annual investment market returns. See the analysis of these individual components as previously discussed for additional information.

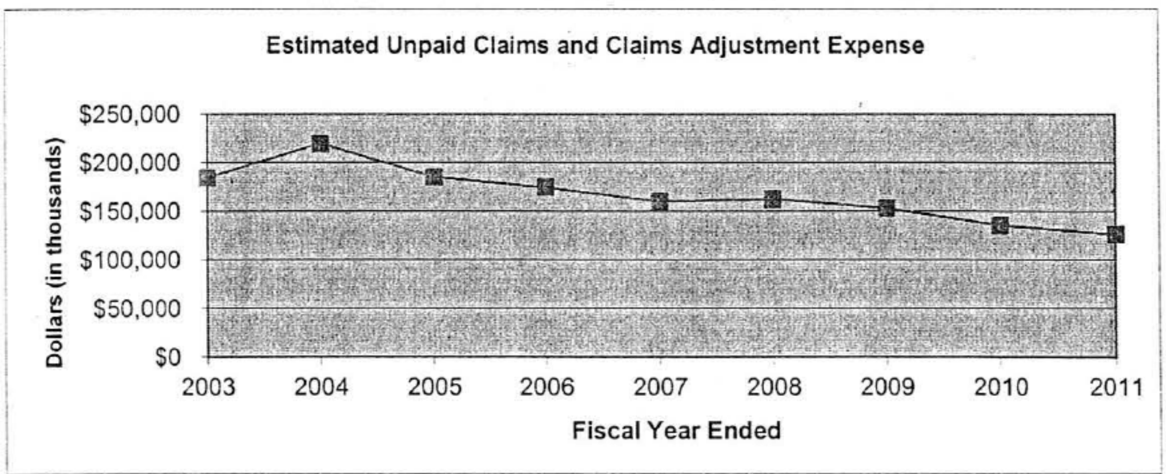
OVERALL ANALYSIS

(Dollars in Thousands)

The overall condition of BRIM has improved from the prior year. Continuing favorable loss development trends, including further reductions in the estimated claims reserves for prior years, together with investment earnings and aggressive risk management have allowed BRIM to further increase the net assets for this year, reflecting net assets of $219,828 at June 30, 2011. 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 2010 to 2011, the liability for unpaid claims decreased from $135,428 to $126,227. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2003 through 2011.



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' nonrenewing insurance policies for health care providers on a national level and in the State.

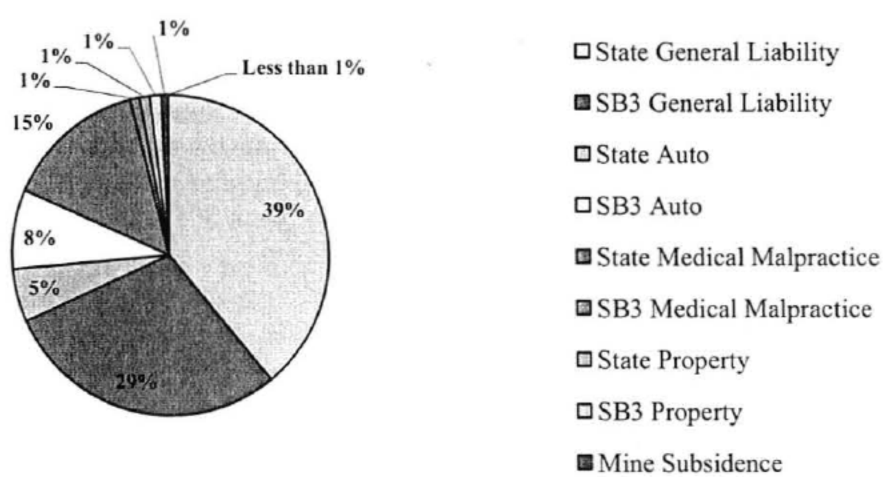
During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for the physicians insured under House Bill 601 to novate into a physician's mutual. On July 1, 2004, House Bill 601 physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were nonrenewed 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. There currently are no active or open claims.

Results by Line of Business for BRIM

BRIM's lines of business are 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).

The following chart shows the breakdown by customer and line of business of the total estimated claim liability number, which is $126,227. 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.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

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

BRIM has no deficiency in net assets for any of the lines of business for the programs it oversees. Previously a 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 followed and will continue to follow to ensure that all lines of business remain fiscally solvent and that the individual programs are financially sound.

Risk Management

BRIM has advanced an aggressive risk management plan during the past four years to help identify the risks underlying the adverse losses that occurred in prior years. 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 Returns

BRIM transferred $6 million to the funds invested with the West Virginia Investment Management Board (WVIMB) and reinvested all of the earnings on the funds for the fiscal years 2011 and 2010. 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 fiscal year 2010 but due to the fluctuations in the market during fiscal year 2011 investment income decreased somewhat when compared to 2010.

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 2011, 2010, and 2009 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 2011	June 30 2010
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,830**	$ 15,622
Advance deposits with insurance company and trustee	**189,211**	184,926
Receivables:		
Premiums due from State agencies	**7**	26
Premiums due from other entities	**371**	387
Other	**410**	801
Less allowance for doubtful accounts	**(387)**	(387)
Net receivables	**401**	827
Prepaid insurance	**38**	–
Restricted cash and cash equivalents	**9,401**	13,991
Restricted receivables:		
Premiums due from other entities	**533**	522
Total current assets	**213,414**	215,888
Noncurrent assets:		
Equity position in internal investment pools	**105,500**	94,488
Restricted investments	**35,022**	25,843
Total noncurrent assets	**140,522**	120,331
Total assets	**353,936**	336,219
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	**43,259**	45,707
Unearned premiums	**6,095**	6,629
Agent commissions payable	**1,097**	1,230
Accrued expenses and other liabilities	**614**	659
Total current liabilities	**51,065**	54,225
Estimated unpaid claims and claims adjustment expense, net of current portion	**82,968**	89,721
Compensated absences	**75**	66
Total noncurrent liabilities	**83,043**	89,787
Total liabilities	**134,108**	144,012
Net assets:		
Restricted by State code	**43,061**	38,420
Unrestricted	**176,767**	153,787
Net assets	**$ 219,828**	$ 192,207

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	**2010**
	(In Thousands)	
Operating revenues		
Premiums	**$ 52,538**	$ 58,007
Less excess coverage/reinsurance premiums	**(6,075)**	(6,257)
Net operating revenues	**46,463**	51,750
Operating expenses		
Claims and claims adjustment expense	**33,598**	31,668
General and administrative	**4,026**	3,946
Total operating expenses	**37,624**	35,614
Operating income	**8,839**	16,136
Nonoperating revenues		
Investment income	**18,782**	25,081
Financing income	**–**	32
Net nonoperating revenues	**18,782**	25,113
Changes in net assets	**27,621**	41,249
Total net assets, beginning of year	**192,207**	150,958
Total net assets, end of year	**$ 219,828**	$ 192,207

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Year Ended June 30	
	2011	**2010**
	(In Thousands)	
Operating activities		
Receipts from customers	**$ 46,309**	$ 50,710
Payments to employees	**(1,541)**	(1,349)
Payments to suppliers	**(2,658)**	(2,487)
Payments to claimants	**(42,799)**	(48,975)
Deposits to advance deposit with insurance company and trustee	**(49,208)**	(58,760)
Withdrawals from advance deposit with insurance company and trustee	**44,927**	48,048
Net cash used in operating activities	**(4,970)**	(12,813)
Noncapital financing activities		
Financing earnings	**–**	32
Net cash provided by noncapital financing activities	**–**	32
Investing activities		
Purchase of investments	**(49,968)**	(37,300)
Sale of investments	**41,503**	35,135
Net investment earnings	**7,053**	12,378
Net cash (used in) provided by investing activities	**(1,412)**	10,213
Net decrease in cash and cash equivalents	**(6,382)**	(2,568)
Cash and cash equivalents, beginning of year	**29,613**	32,181
Cash and cash equivalents, end of year	**$ 23,231**	$ 29,613
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 13,830**	$ 15,622
Restricted cash and cash equivalents	**9,401**	13,991
	$ 23,231	$ 29,613

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	Year Ended June 30	
	2011	2010
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities		
Operating income	$ 8,839	$ 16,136
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in advanced deposits	(4,285)	(10,711)
Decrease (increase) in premiums receivable, net	415	(434)
Increase in prepaid insurance	(38)	–
Decrease in estimated liability for unpaid claims and claims adjustment expense	(9,201)	(17,305)
(Decrease) increase in other liabilities	(166)	107
Decrease in unearned premiums	(534)	(606)
Total adjustments	(13,809)	(28,949)
Net cash used in operating activities	$ (4,970)	$ (12,813)
Noncash activities		
Increase in fair value of investments	$ 11,726	$ 12,705

See accompanying notes.

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 161 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 3 (SB3) was enacted, allowing local governmental entities and nonprofit organizations to participate in the entire program. There are approximately 900 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 annually pays a "premium" deposit into a trust fund in the amount of the estimated losses for the current policy year. As claims are reported, they are paid from the trust funds established by the premium deposit. When paid losses exceed the amount of the "premium" deposit, including earnings, BRIM pays into the trust account 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 made subsequent to the current policy 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 thousand per occurrence on general liability, automobile liability, and medical malpractice claims. From July 1, 1976 through June 30, 1980, the liability coverage provided by BRIM was limited to $100 thousand per occurrence. From July 1, 1982 through June 30, 1985,

1. General (continued)

the liability coverage provided by BRIM was limited to $6 million per occurrence. Since July 1, 1985, the liability coverage provided by BRIM is limited to $1 million indemnity per occurrence. In addition, the county boards of education are covered by an excess insurance policy providing up to $5 million of coverage in excess of the underlying $1 million 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 thousand of loss per event on property insurance claims. Losses in excess of $25 thousand 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 million per event. From July 1, 1991 through June 30, 1996, the exposure retained by BRIM was $2 million per event. Since July 1, 1996, the exposure retained by BRIM is $1 million per event. BRIM has obtained excess coverage, through insurance companies, covering losses in excess of $1 million up to $400 million 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 thousand to $75 thousand 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

1. General (continued)

whose damages were limited because of caps for trauma care or as a result of joint and several 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 U.S. generally accepted accounting principles (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 nonappropriated 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.

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, 2011 and 2010, 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 approximates estimated fair value, was $21,353 and $24,416 at June 30, 2011 and 2010, 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. In fiscal year 2010, BRIM transferred the remaining advance deposits being held in accounts maintained by the carrier into the existing BNY trust vehicle to fund all outstanding liability claims with loss dates before 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 West Virginia Investment Management Board (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

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

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.

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

West Virginia Money Market Pool (formerly the Cash Liquidity Pool)

The BTI administers the pool and limits the exposure to credit risk by requiring all corporate bonds held by the West Virginia Money Market Pool 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.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

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

	June 30, 2011				June 30, 2010			
Security Type	Moody's	S&P	Fair Value	Percent of Pool Assets	Moody's	S&P	Fair Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 1,069,576	35.43%	P1	A-1	$ 855,844	29.75%
Corporate bonds and notes	Aa1	AA	10,000	0.33	Aa1	AA	10,000	0.35
	Aa2	AA	33,000	1.09	Aa2	AA	10,000	0.35
	Aa3	AA	31,000	1.03	–	–	–	–
	Aa3	A	53,000	1.76	–	–	–	–
			127,000	4.21			20,000	0.70
U.S. agency bonds	Aaa	AAA	170,788	5.66	Aaa	AAA	246,990	8.59
U.S. Treasury notes	Aaa	AAA	298,345	9.88	Aaa	AAA	65,153	2.26
U.S. Treasury bills	Aaa	AAA	231,051	7.65	Aaa	AAA	476,670	16.57
Negotiable certificates of deposit	P1	A-1	140,000	4.64	P1	A-1	281,000	9.77
U.S. agency discount notes	P1	A-1	697,164	23.10	P1	A-1	606,048	21.07
Money market funds	Aaa	AAAm	200,279	6.64				
	–	–	–	–	Aaa	AAA	150,026	5.21
Repurchase agreements								
U.S. Treasury notes	Aaa	AAA	69,557	2.30	Aaa	AAA	101,280	3.52
U.S. agency notes	Aaa	AAA	14,800	0.49	Aaa	AAA	73,700	2.56
			84,357	2.79			174,980	6.08
			$ 3,018,560	100.00%			$ 2,876,711	100.00%

Concentration of Credit Risk

West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2011 and 2010, 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, 2011 and 2010, the West Virginia 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 a pool managed by the securities lending agent in the BTI's name.

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

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

The overall weighted average maturity (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides the WAM for the various asset types in the WV Money Market Pool (fair values – in thousands):

	June 30, 2011		June 30, 2010	
Investment Type	**Fair Value**	**WAM Days**	**Fair Value**	**WAM Days**
Repurchase agreements	$ 84,357	1	$ 174,980	1
U.S. Treasury notes	298,345	137	65,153	140
U.S. Treasury bills	231,051	34	476,670	35
Commercial paper	1,069,576	35	855,844	18
Certificates of deposit	140,000	58	281,000	45
U.S. agency discount notes	697,164	45	606,048	52
Corporate bonds and notes	127,000	20	20,000	19
U.S. agency bonds/notes	170,788	66	246,990	55
Money market funds	200,279	1	150,026	1
Total rated investments	$ 3,018,560	46	$ 2,876,711	33

BRIM's amount invested in the West Virginia Money Market Pool of $21,353 included in cash and cash equivalents, at June 30, 2011, and $24,416 at June 30, 2010, represents approximately 1% of total investments in this pool.

Foreign Currency Risk

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

3. Deposit and Investment Risk Disclosures (continued)

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 Equity pool, International Nonqualified Equity pool, Total Return Fixed Income pool, Core Fixed Income pool, Hedge Fund and the Treasury Inflation Protection Securities (TIPS).

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	55
Hedge fund	20
Other	5

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):

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Domestic large cap equity	$ 7,204	$ 10,287	$ 8,670	$ 8,924
Domestic non-large cap equity	3,554	3,667	2,676	1,701
International equity	3,458	9,091	4,725	7,792
International nonqualified equity	2,884	4,781	3,150	4,023
Total return fixed income	33,480	42,472	28,750	36,332
Core fixed income	19,750	23,093	34,841	37,553
Hedge fund	22,849	25,653	23,085	24,003
TIPS (Treasury Inflation Protection Securities)	13,987	14,280	–	–
Other	7,198	7,198	3	3
	$ 114,364	$ 140,522	$ 105,900	$ 120,331

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

	2011	2010
Investment income:		
Interest income including realized gains/losses on sale of securities	$ 7,056	$ 12,376
Unrealized gain on investments	11,726	12,705
Total investment income	$ 18,782	$ 25,081

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 Equity Pool

This pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. At June 30, 2011 and 2010, 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 $10,287 and $8,924 at June 30, 2011 and 2010, represents approximately 0.5% of total investments in this pool.

Domestic Non-Large Cap Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2011 and 2010, 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 $3,667 and $1,701 at June 30, 2011 and 2010, represents approximately 0.5% 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 (in thousands):

	June 30, 2011			June 30, 2010		
Currency	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian dollar	$ 57,707	$ 4	$ 57,711	$ 28,001	$ 8	$ 28,009
Brazil cruzeiros real	113,185	3,157	116,342	82,624	1,605	84,229
British pound	185,203	407	185,610	141,897	435	142,332
Canadian dollar	73,646	1,172	74,818	58,467	59	58,526
Czech koruna	14,883	–	14,883	10,106	5	10,111
Danish krone	9,198	4	9,202	7,115	6	7,121
Egyptian pound	–	1	1	741	12	753
Euro	321,019	(24)	320,995	242,635	379	243,014
Hong Kong dollar	145,395	1,722	147,117	137,405	848	138,253
Hungarian forint	13,693	6	13,699	11,994	39	12,033
Indian rupee	15,598	2	15,600	1,938	1	1,939
Indonesian rupian	7,629	15	7,644	4,049	24	4,073
Israeli shekel	16,949	140	17,089	22,323	–	22,323
Japanese yen	186,089	1,456	187,545	162,122	1,834	163,956
Malaysian ringgit	8,745	57	8,802	10,960	206	11,166
Mexican new peso	30,641	200	30,841	23,959	422	24,381
New Taiwan dollar	27,520	232	27,752	51,582	2,875	54,457
New Turkish lira	22,980	449	23,429	44,480	1	44,481
New Zealand dollar	–	–	–	1,025	–	1,025
Norwegian krone	20,476	100	20,576	11,570	33	11,603
Pakistani rupee	2,089	–	2,089	923	–	923
Philippine peso	6,195	2	6,197	6,158	15	6,173
Polish zloty	11,535	7	11,542	7,912	5	7,917
Singapore dollar	21,338	67	21,405	29,787	113	29,900
South African rand	44,669	167	44,836	38,417	132	38,549
South Korean won	134,565	1,474	136,039	103,072	1,207	104,279
Swedish krona	20,743	52	20,795	18,257	45	18,302
Swiss franc	68,353	40	68,393	41,481	417	41,898
Thailand baht	15,808	428	16,236	8,775	180	8,955
UAE dirham	8,092	–	8,092	–	–	–
Total	$ 1,603,943	$ 11,337	$ 1,615,280	$ 1,309,775	$ 10,906	$ 1,320,681

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 $233,335 and $185,968 at June 30, 2011 and 2010, respectively. BRIM's amount invested in the international equity pool of $9,091 and $7,792 at June 30, 2011 and 2010, represents approximately 0.6% of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

International Nonqualified Equity Pool

This pool holds a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2011 and 2010, was $68,082 and $53,797, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. BRIM's amount invested in the international nonqualified equity pool of $4,781 and $4,023 at June 30, 2011 and 2010, respectively, represents approximately 7.0% and 7.5% 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, 2011				June 30, 2010			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Baa2	BBB	$ 699,706	29.9%	Baa	BBB	$ 572,512	31.8%
U.S. Treasury bonds and notes	Aaa	AAA	367,385	15.7	Aaa	AAA	165,854	9.2
U.S. Treasury inflation protection bonds			–	–	Aaa	AAA	30,997	1.7
Corporate asset-backed securities	Aa3	AA	32,194	1.4	Aaa	AAA	13,213	0.7
Corporate collateralized mortgage obligations	B1	BB	31,137	1.3	Ba	BB	65,134	3.6
Corporate preferred securities	NR	BB+	5,778	0.2	NR	NR	891	0.0
Agency mortgage-backed securities	Aaa	AAA	443,640	19.0	Aaa	AAA	200,978	11.2
Agency notes	Aa	A	–	–	Aa	A	4,004	0.2
Agency collateralized mortgage obligations	Aaa	AAA	37,142	1.6	Aaa	AAA	7,258	0.4
Municipal bonds	A1	A	81,354	3.5	Aa	A	26,929	1.5
Regulated investment companies	Aaa	AAA	227,854	9.7	–	–	–	–
Agency discount notes	P-1	A-1+	3,403	0.1	–	–	–	–
Money market funds			–	–	Aaa	AAA	268,245	14.9
Total rated investments			$ 1,929,593	82.4%			$ 1,356,015	75.2%

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2011, unrated securities include commingled investment pools of $410,007 and option contract purchased valued at $1,891. These unrated securities represent 17.6% of the fair value of the pool's investments. At June 30, 2010, unrated securities include commingled investment pools of $441,720 and option contract purchased valued at $1,349. These unrated securities represent 24.8% of the fair value of the pool's investments.

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, 2011 and 2010, 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, 2011 and 2010, 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 collateral reinvestment 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 (in thousands):

	June 30, 2011		June 30, 2010	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Commingled investment pools	$ 410,007	2.0	$ 441,720	0.5
Corporate notes and bonds	699,706	6.3	572,512	6.3
U.S. Treasury notes and bonds	367,385	5.6	165,854	3.9
U.S. Treasury inflation protection bonds	–	–	30,997	13.1
Corporate asset-backed securities	32,194	16.2	13,213	17.5
Corporate collateralized mortgage obligations	31,137	5.4	65,134	4.8
Agency mortgage-backed securities	443,640	3.3	200,978	3.8
Agency discount notes	3,403	0.5	–	–
Agency notes	–	–	4,004	2.0
Agency collateralized mortgage obligations	37,142	3.5	7,258	5.2
Municipal bonds	81,354	14.6	26,929	17.7
Regulated investment companies	227,854	0.0	–	–
Money market fund	–	–	268,245	0.0
Total assets	$ 2,333,822	4.6	$ 1,796,844	4.1

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, 2011 and 2010, the Total Return Fixed Income pool held $544,113 and $286,583, respectively, of these securities. This represents approximately 23% and 16% of the value of the fixed income pools.

BRIM's amount invested in the Total Return Fixed Income pool of $42,472 and $36,332 at June 30, 2011 and 2010, respectively, represents approximately 1.8% and 2.0% 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 $124,230, or 30% at June 30, 2011, and $111,363 or 25% at June 30, 2010, 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, 2011 and 2010, 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 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 core fixed income pool (in thousands).

	June 30, 2011				June 30, 2010			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	A2	A	$ 200,540	16.8%	A	A	$ 153,804	9.9%
U.S. Treasury bonds and notes	Aaa	AAA	312,308	26.1	Aaa	AAA	334,152	21.4
Corporate asset-backed securities	Aa1	AAA	24,084	2.0	Aaa	AAA	10,679	0.7
Corporate collateralized mortgage obligations	A1	AAA	140,595	11.8	Aa	AAA	122,349	7.9
Agency mortgage-backed securities	Aaa	AAA	173,704	14.5	Aaa	AAA	138,487	8.9
Agency collateralized mortgage obligations	Aaa	AAA	286,297	24.0	Aaa	AAA	245,849	15.7
Agency notes and bonds	Aaa	AAA	14,060	1.2	Aaa	AAA	13,494	0.9
Municipal bonds	Aa3	AA-	2,201	0.2	Aa	A	273	0.0
Regulated investment companies	Aaa	AAA	40,883	3.4	–	–	–	–
Money market funds			–	–	Aaa	AAA	53,413	3.4
Total rated investments			$ 1,194,672	100.0%			$ 1,072,500	68.8%

At June 30, 2010, unrated securities include a commingled investment pool valued at $488,243. This unrated security represents 31.2% of the fair value of the pool's investments.

3. Deposit and Investment Risk Disclosures (continued)

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, 2011 and 2010, the Core 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, 2011 and 2010, 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 (in thousands):

	June 30, 2011		June 30, 2010	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Corporate notes and bonds	$ 200,540	5.6	$ 153,804	5.9
Commingled investment pools	–	–	488,243	4.3
U.S. Treasury notes and bonds	312,308	6.1	334,152	5.8
Corporate asset-backed securities	24,084	1.6	10,679	1.7
Corporate collateralized mortgage obligations	140,595	3.6	122,349	3.4
Agency mortgage-backed securities	173,704	7.1	138,487	3.0
Agency notes and bonds	14,060	5.3	13,494	6.0
Agency collateralized mortgage obligations	286,297	3.6	245,849	3.7
Municipal bonds	2,201	14.6	273	12.0
Regulated investment companies	40,883	0.0	–	–
Money market fund	–	–	53,413	–
Total assets	$ 1,194,672	5.0	$ 1,560,743	4.4

3. Deposit and Investment Risk Disclosures (continued)

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, 2011 and 2010, the Core Fixed Income pool held \$624,680 and \$517,363, respectively, of these securities. This represents approximately 52% and 33% of the value of the fixed income pools.

BRIM's amount invested in the Core Fixed Income pool of \$23,093 and \$37,553 at June 30, 2011 and 2010, respectively, represents approximately 1.9% and 2.0% 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.

<u>Hedge Fund</u>

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, 2011 and 2010, approximately \$457,406 and \$393,329 or 46% and 35%, respectively, of the market value of the funds were held in foreign currencies. BRIM's amount invested in the Hedge Fund of \$25,653 and \$24,003 at June 30, 2011 and 2010, represents approximately 2.4% and 2.1% of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Treasury Inflation Protection Securities (TIPS)

The pool was established on October 1, 2010, with securities transferred from the Real Estate Pool where they were used as a cash "parking vehicle." The TIPS pool invests in treasury inflation-protected securities and its objective is to match the performance of the Barclay's Capital U.S. TIPS bond index on an annualized basis.

Credit Risk

WVIMB limits the exposure to credit risk in the TIPS 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 TIPS pool:

	June 30, 2011			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
U.S. Treasury issues	Aaa	AAA	$ 891,182	100.0%
Money market funds	Aaa	AAA	259	0.0
Total rated investments			$ 891,441	100.0%

Concentration of Credit Risk

West Virginia statutes prohibit the TIPS pool from investing more that 5% of its assets in securities issued by a single private corporation or association. At June 30, 2011, 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, 2011, the TIPS pool held no securities that were subjected to custodial credit risk. All securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's collateral reinvestment fund.

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

WVIMB monitors interest rate risk of the TIPS 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 TIPS pool (in thousands):

	June 30, 2011	
Investment Type	**Fair Value**	**Modified Duration (Years)**
U.S. Treasury issues	$ 891,182	7.6
Money market fund	259	0.0
Total assets	$ 891,441	7.6

BRIM's amount invested in the TIPS pool of $14,280 at June 30, 2011 represents approximately 1.6% of total investments in this pool.

Foreign Currency Risk

None of the securities held by the TIPS pool are exposed to foreign currency risk.

Advanced Deposits

Insurance Company and Trustee

Beginning in fiscal year 2006, BRIM deposited monies with BNY, as trustee, to hold as advance deposits in an escrow account for BRIM liability claims. 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.

(Dollars in Thousands)

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:

			June 30, 2011		June 30, 2010	
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Pool Assets**	**Fair Value**	**Percent of Pool Assets**
Corporate bonds and notes	Aaa	AAA	$ 9,101	4.79%	$ 13,247	7.22
	AA1	AAA	–	–	1,318	0.72
	Aa3	A+	–	–	865	0.47
	Aa2	AA+	1,778	0.94	3,856	2.10
	Aa2	AA	–	–	1,864	1.02
	Aa1	AA	1,540	0.81	–	–
	A1	AA-	–	–	672	0.36
			12,419	6.54	21,822	11.89
U.S. Treasury bonds and notes	Aaa	AAA	139,613	73.44	132,174	72.02
U.S. Agency bonds	Aaa	AAA	34,320	18.05	28,780	15.68
Agency-backed securities	Aaa	AAA	3,432	1.81	–	–
Money market funds	Aaa	AAA	322	0.16	752	0.41
			$ 190,106	100.00%	$ 183,528	100.00%

Concentration of Credit Risk

As per the Investment Guidelines, at the time of purchase, no more than 4.9% of its advance deposit assets can be held in securities issued by a single private corporation or association.

Custodial Credit Risk

At June 30, 2011 and 2010, advanced deposits include no securities that were subject to 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 advanced deposits (carrying values – in thousands):

Investment Type	June 30, 2011 Fair Value	June 30, 2011 WAM Years	June 30, 2010 Fair Value	June 30, 2010 WAM Years
Corporate bonds and notes	$ 12,419	1.2	$ 21,822	2.3
U.S. Treasury bonds	139,613	4.6	132,174	4.5
U.S. agency bonds	34,320	2.5	28,780	3.1
Agency-backed securities	3,432	4.0	–	–
Money market funds	322	1.0	752	1.0
Total rated investments	$ 190,106	4.0	$ 183,528	4.0

Foreign Currency Risk

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

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:

	2011	2010
	(In Thousands)	
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 135,428**	$ 152,733
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**53,728**	51,388
Decrease in provision for insured events of prior years	**(20,130)**	(19,720)
Total incurred claims and claims adjustment expense	**33,598**	31,668
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**(10,757)**	(9,965)
Claims and claims adjustment expense attributable to insured events of prior years	**(32,042)**	(39,008)
Total payments	**(42,799)**	(48,973)
Total unpaid claims and claims adjustment expense liability at end of year	**$ 126,227**	$ 135,428

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2011 and 2010 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 $11,626 and $12,217 for fiscal years 2011 and 2010, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

(Dollars in Thousands)

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 12.5% of covered employees' salaries to PERS for 2011 and 10.5% for 2010 and 2009. 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:

	2011	2010	2009
BRIM contributions (12.5% - 2011, 10.5% - 2010 and 2009)	**$ 126**	$ 104	$ 103
Employee contributions (4.5%)	**46**	43	44
Total contributions	**$ 172**	$ 147	$ 147

BRIM's contribution to the retirement plan for each of the years indicated above were equal to its required contributions. The contributions are included in general and administrative expenses in the basic financial statements.

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, S.E., 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, S.E., Suite 2, Charleston, West Virginia 25304 or by calling (888) 680-7342.

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. The conversion of sick leave into OPEB health care benefits is now required to be accounted for as part of the OPEB obligation.

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. BRIM records expense for their allocated ARC and a liability for the ARC that has not been paid. Based on the actuarial study completed, the annual required contribution rates were determined for the fiscal year ended June 30, 2010. BRIM's OPEB expense for fiscal years 2011 and 2010 were approximately $220 and $219, respectively, of which approximately $182 and $183 remained unpaid as of June 30, 2011 and 2010, respectively. The unpaid of $183 as of June 30, 2010, was paid in fiscal year 2011. The unpaid of $182 as of June 30, 2011, is recorded in accrued expenses and other

5. Employee Benefit Plans (continued)

liabilities in the statements of net assets. BRIM's OPEB contribution for fiscal years 2011 and 2010 was approximately \$39 and \$35, respectively. For fiscal year 2011, the actual contribution was \$39 of the total required contribution of \$220. The actual contribution represents 18% of the total required contribution. BRIM's policy is to fund at least the minimum annual premium component of the ARC. 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 \$10 and a term beginning on February 1, 2007, and ending on January 31, 2012.

Operating lease expense approximated \$133 and \$137 for the years ended June 30, 2011 and 2010, respectively, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are \$69 for the year ending June 30, 2012.

7. Transactions With Primary Government and Component Units

Premium revenues derived from billings to State entities, which are funded by special revenue funds and component units of the primary government approximated \$25,239 and \$28,874 for the years ended June 30, 2011 and 2010, respectively.

BRIM is required by Senate Bill 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 \$1,995 and \$2,247 for the years ended June 30, 2011 and 2010, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

8. 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 million in excess of BRIM's \$1 million self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM's \$1 million 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, 2011 or 2010.

9. 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 Mutual Insurance Company 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 million 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 Supplementary Information

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 other 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 to 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 the 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 for 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 existing 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 amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	Fiscal and Policy Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					(In Thousands)					
1) Premiums and investment revenues										
Earned	$ 56,992	$ 81,450	$ 110,279	$ 95,336	$ 89,690	$ 98,270	$ 83,498	$ 69,739	$ 83,088	**$ 71,320**
Ceded	1,866	3,126	3,801	3,912	4,145	6,151	6,394	5,944	6,257	**6,075**
Net earned	55,126	78,324	106,478	91,424	85,545	92,119	77,104	63,795	76,831	**65,245**
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	7,315	11,168	14,332	8,301	8,894	8,536	8,045	7,840	8,043	**7,867**
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	60,515	83,642	94,279	65,674	58,491	59,678	59,246	56,194	51,388	**53,728**
Ceded	783	577	597	5	172	3,597	2,000	300	–	**–**
Net incurred	59,732	83,065	93,682	65,669	58,319	56,081	57,246	55,894	51,388	**53,728**
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	11,077	11,746	13,799	9,134	10,097	12,416	8,352	9,753	9,965	**10,757**
One year later	14,834	25,194	55,414	16,901	17,547	16,942	18,097	19,069	17,009	
Two years later	24,366	50,292	61,987	25,283	23,291	24,345	26,240	25,457		
Three years later	35,464	56,354	72,727	33,505	31,901	30,733	33,488			
Four years later	43,356	59,777	78,617	37,904	37,202	35,469				
Five years later	46,518	62,406	81,861	42,490	39,306					
Six years later	49,116	63,191	83,488	45,173						
Seven years later	51,179	63,803	83,877							
Eight years later	51,652	63,849								
Nine years later	52,027									
5) Reestimated ceded claims and expenses	783	577	597	5	172	–	–	–	–	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	59,732	83,065	93,682	65,669	58,319	56,081	57,246	55,894	51,388	**53,728**
One year later	58,141	80,739	93,171	61,419	51,183	53,924	57,108	48,432	46,571	
Two years later	56,755	79,646	91,136	56,023	47,726	48,330	51,881	46,176		
Three years later	58,004	69,595	90,453	52,893	45,490	44,898	46,708			
Four years later	55,443	65,434	87,424	50,179	44,898	43,179				
Five years later	53,627	62,177	86,199	50,097	43,237					
Six years later	54,784	60,797	84,718	48,374						
Seven years later	53,740	59,632	83,815							
Eight years later	53,589	58,757								
Nine years later	52,960									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(6,772)	(24,308)	(9,867)	(17,295)	(15,082)	(12,902)	(10,538)	(9,718)	(4,817)	–

Note: The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting, but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of 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									
	2011					2010				
	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	$ 130,808	$ 3,660	$ 924	$ 36	$ 135,428	$ 145,850	$ 5,854	$ 993	$ 36	$ 152,733
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	48,954	4,173	601	–	53,728	46,447	4,193	748	–	51,388
(Decrease) increase in provision for insured events of prior fiscal years	(19,616)	(438)	(40)	(36)	(20,130)	(20,921)	1,408	(207)	–	(19,720)
Total incurred claims and claims adjustment expense	29,338	3,735	561	(36)	33,598	25,526	5,601	541	–	31,668
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(8,496)	(2,164)	(97)	–	(10,757)	(8,529)	(1,321)	(115)	–	(9,965)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	(29,151)	(2,367)	(524)		(32,042)	(32,039)	(6,474)	(495)	–	(39,008)
Total claims and claims adjustment expense payments	(37,647)	(4,531)	(621)	–	(42,799)	(40,568)	(7,795)	(610)	–	(48,973)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	$ 122,499	$ 2,864	$ 864	$ –	$ 126,227	$ 130,808	$ 3,660	$ 924	$ 36	$ 135,428

Other Financial Information

West Virginia Board of Risk and Insurance Management

Combining Statement of Net Assets

June 30, 2011
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 13,830	$ –	$ –	$ 13,830
Advance deposits with carrier/trustee	189,211	–	–	189,211
Receivables, net	401	–	–	401
Prepaid insurance	38	–	–	38
Restricted cash and cash equivalents	–	4,075	5,326	9,401
Restricted receivables, net	–	533	–	533
Total current assets	203,480	4,608	5,326	213,414
Noncurrent assets:				
Investments	105,500	–	–	105,500
Restricted investments	–	35,022	–	35,022
Total assets	308,980	39,630	5,326	353,936
Liabilities				
Current liabilities:				
Estimated unpaid claims and claims adjustment expense	42,573	686	–	43,259
Unearned revenue	5,100	995	–	6,095
Agents commissions payable	1,097	–	–	1,097
Accrued expenses and other liabilities	598	16	–	614
Interprogram (receivables) payables	(17)	17	–	–
Total current liabilities	49,351	1,714	–	51,065
Noncurrent liabilities:				
Estimated claims and claims adjustment expense, noncurrent	82,790	178	–	82,968
Compensated absences	72	3	–	75
Total noncurrent liabilities	82,862	181	–	83,043
Total liabilities	132,213	1,895	–	134,108
Net assets				
Restricted	–	37,735	5,326	43,061
Unrestricted	176,767	–	–	176,767
Net assets	$176,767	$ 37,735	$ 5,326	$219,828

West Virginia Board of Risk and Insurance Management

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

June 30, 2011
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Operating revenues				
Premiums	$ 50,472	$ 2,032	$ 34	$ 52,538
Less excess coverage/reinsurance premiums	(6,075)	–	–	(6,075)
Total operating revenues	44,397	2,032	34	46,463
Operating expenses				
Claims and claims adjustment expense	33,060	562	(24)	33,598
General and administrative expense	3,939	87	–	4,026
Total operating expenses	36,999	649	(24)	37,624
Operating income	7,398	1,383	58	8,839
Nonoperating revenues				
Investment income	15,582	3,191	9	18,782
Finance income	–	–	–	–
Net nonoperating revenues	15,582	3,191	9	18,782
Changes in net assets	$ 22,980	$ 4,574	$ 67	$ 27,621

West Virginia Board of Risk and Insurance Management

Deposits Disclosure

Form 7

June 30, 2011
(In Thousands)

	Fair Value	
Cash with Treasurer	$ 1,878	(1)

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

Cash with Treasurer	$ 1,878	(2)
Cash equivalents with BTI	21,353	(2)
	$ 23,231	(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, 2011
(In Thousands)

Investment Pool	Amount Unrestricted		Amount Restricted		Amount Reported		Fair Value
BTI and WVIMB Investment Pools:							
Cash liquidity	$ 12,636	(1)	$ 8,717	(1)	$ 21,353	(3)	$ 21,353
Short-term	105,500	(1)	35,022	(1)	140,522	(3)	140,522
Total investments	$ 118,136	(1)	$ 43,739	(1)	$ 161,875		$ 161,875

(1) Agrees to audited statement of net assets as follows:				
Investments with BTI and WVIMB	$ 118,136		$ 43,739	
Less investments classified as cash equivalents	12,636		8,717	
Total investments	$ 105,500	(2)	$ 35,022	(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, 2011
(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	$ 9,401	(1)
Unrestricted	13,830	(1)
Total cash and cash equivalents	23,231	
Less investments disclosed as cash equivalents	21,353	(2)
Fair value of deposits as disclosed on Form 7	$ 1,878	(2)
Investments:		
Investments as reported:		
Noncurrent – restricted	$ 35,022	(1)
Noncurrent – unrestricted	105,500	(1)
Total investments	140,522	
Add investments disclosed as cash equivalents	–	
Fair value of investments as disclosed on Form 8	$ 140,522	

(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, 2011
(In Thousands)

	Amount	
Accounts receivable (other than State agencies):		
Total accounts receivable as of June 30, 2011	$ 1,314	(1)
Less allowance for doubtful accounts	(387)	(2)
Net receivable	$ 927	

(1) Derived from the audited statement of net assets as follows:		
Receivables:		
Premiums due from other entities	$ 371	(2)
Other	410	(2)
Restricted receivables:		
Premiums due from other entities	533	(2)
	$ 1,314	

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

West Virginia Board of Risk and Insurance Management

Schedule of Accounts Receivable From Other State Agencies

Form 10

June 30, 2011
(In Thousands)

Receivable From	**Amount**	
Board of Pharmacy	$ 1	
Water Development Authority	1	
RESA I	5	
Total accounts receivable	$ 7	(1)

(1) Agrees to 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, 2011
(In Thousands)

Type of Debt	**Final Maturity Date**	**Balance as Reported June 30 2010**	**Payments**	**Other Changes**	**Balance June 30 2011**	
Compensated absences – annual leave	Varies	$ 66	$ –	$ 9	$ 75	(1)

(1) Agrees to audited statement of net assets.

ERNST & YOUNG

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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, 2011, and have issued our report thereon dated October 17, 2011. 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 reasonable 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.

Ernst + Young LLP

October 17, 2011

Appendix B: Engagement letter

Ernst & Young

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Charleston, WV 25301

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Mr. Stephen W. Schumacher, CPA
Chief Financial Officer
West Virginia Board of Risk and Insurance Management
90 MacCorkle Avenue SW, Suite 203
South Charleston, West Virginia 25303

July 26, 2011

Dear Mr. Schumacher:

This agreement (together with all attachments hereto, the "Agreement") confirms the engagement of Ernst & Young LLP ("we" or "EY") to audit and report on the basic financial statements of the West Virginia Board of Risk and Insurance Management (BRIM) for the year ending June 30, 2011. All of services described in this paragraph are referred to collectively as the "Audit Service" or the "audit."

Audit responsibilities and limitations

We also will provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We will not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, and therefore, we will not express such an opinion. This report is intended solely for the information and use of management, the Board of Directors, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

The objective of our audit of the financial statements is to express opinions on whether the basic financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Should conditions not now anticipated preclude us from completing our audits and issuing our report we will advise you and those charged with governance promptly and take such action as we deem appropriate.

We will conduct the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants (the "AICPA"), and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain reasonable, rather than absolute, assurance that the basic financial statements are free of material misstatement whether caused by error or fraud. As Management is aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud or illegal acts. Accordingly, there is some risk that a material misstatement of the financial statements may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the basic financial statements.

As part of our audit of the basic financial statements, we will consider, solely for the purpose of planning our audit and determining the nature, timing and extent of our audit procedures, BRIM's internal control. Our consideration of internal control for the audit of the financial statements will not be sufficient to enable us to express an opinion on the effectiveness of internal control or to identify all significant deficiencies and material weaknesses.

In accordance with AICPA auditing standards, we will communicate certain matters related to the conduct and results of the audit to those charged with governance.

If we determine that there is evidence that fraud or possible illegal acts may have occurred, we will bring such matters to the attention of the appropriate level of management. If we become aware of fraud involving senior management or fraud (whether committed by senior management or other employees) that causes a material misstatement of the basic financial statements, we will report this matter directly to the Board of Directors. We will determine that the Board of Directors and appropriate members of management are adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. We also will inform the Board of Directors and appropriate members of management of significant audit adjustments, noted during our audit procedures.

We will communicate in writing to management and to those charged with governance all significant deficiencies and material weaknesses identified during our audit, as well as any significant deficiencies and material weaknesses communicated to management and to those charged with governance in previous audits that have not yet been remediated.

We also may communicate other opportunities we observe for economies in or improved controls over BRIM's operations.

As part of our engagement, we will apply certain limited procedures to BRIM's required supplementary information (RSI). The RSI consists of Management's Discussion and Analysis and GASB 30 Supplemental Information. Those limited procedures will consist principally of inquires of management regarding the methods of measurement and presentation of RSI, which management will affirm to us in its representation letter. However; we will not audit the information and will not express an opinion on it.

Supplementary information other than RSI such as combining schedules, introductory and statistical sections and additional scheduled included for the West Virginia Financial Accounting and Reporting Section (FARS), also may accompany BRIM's basic financial statements. We will subject all supplementary information that is financially oriented to the audit procedures applied in our audit of the basic financial statements and render our opinion on whether that information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole. We will not subject supplementary information that comprises nonaccounting information or accounting information not directly related to the basic financial statements to the auditing procedures applied in our audit of the basic financial statements and therefore will not express an opinion on this supplementary information.

To the extent required by law, we will make our audit documentation available to a federal agency or the Comptroller General of the United States Government Accountability Office and provide copies upon their request. Audit documentation, as well as appropriate individuals, also will be made available upon request to appropriate auditors and reviewers. We shall promptly notify BRIM of any such request to review our audit documentation.

An audit performed in accordance with *Government Auditing Standards* is not designed to detect violations of laws or regulations or provisions of contracts or grant agreements that do not have a direct and material effect on the financial statements or other financial data significant to the audit objectives.

Because the determination of abuse is subjective, an audit conducted in accordance with *Government Auditing Standards* does not provide reasonable assurance of detecting abuse.

In accordance with *Government Auditing Standards*, we will determine that appropriate members of management and the Board of Directors are adequately informed of material violations of provisions of contracts or grant agreements and material abuse.

In some circumstances in accordance with *Government Auditing Standards*, we may be required to report fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse directly to parties external to BRIM.

In accordance with *Government Auditing Standards*, we will report in a management letter immaterial violations of provisions of contracts or grant agreements and immaterial abuse unless clearly inconsequential considering both qualitative and quantitative factors.

Under *Government Auditing Standards*, we are required to provide to BRIM our most recent peer review report and subsequent peer review reports received during the term of this Agreement. Our most recent peer review report accompanies this Agreement.

Management's responsibilities and representations

The basic financial statements are the responsibility of management. Management also is responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets and for the overall fair presentation of the basic financial statements. Management also is responsible for the identification of, and for BRIM's compliance with, the laws and regulations and the provisions of contracts and grant agreements applicable to its activities.

Management is responsible for adjusting the basic financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unrecorded audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for apprising us of all allegations involving financial improprieties received by management or those charged with governance (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") and providing us full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading EY or other allegations of illegal acts or fraud that could result in a misstatement of the financial statements or otherwise affect the financial reporting of BRIM. If BRIM limits the information otherwise available to us under this paragraph (based on BRIM's claims of attorney/client privilege, work product doctrine or otherwise), BRIM will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of the audit and may prevent us from opining on BRIM's financial statements; alter the form of report we may issue on such financial statements; or otherwise affect our ability to continue as BRIM's independent auditors. We will disclose any such withholding of information to those charged with governance.

As required by AICPA auditing standards, we will make specific inquiries of management about the representations contained in the basic financial statements. AICPA auditing standards also require that, at the conclusion of the audit, we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written representations, and the results of our procedures comprise evidence on which we will rely in forming an opinion on the basic financial statements. Management is responsible for providing us with all financial records and related information on a timely basis, and its failure to do so may cause us to delay our report, modify our procedures or even terminate the Audit Services.

Management shall make appropriate inquiries to determine whether BRIM has a capital lease, material cooperative arrangement or other business relationship with EY or any other member firm of the global Ernst & Young organization (any of which, an "EY Firm") other than one pursuant to which an EY Firm performs professional services.

Management shall discuss any independence matters with EY that, in management's judgment, could bear upon EY's independence.

BRIM shall be responsible for its personnel's compliance with BRIM's obligations under this Agreement.

Management is responsible for the following, as provided in *Government Auditing Standards*:

- Distributing the report on internal control over financial reporting and on compliance and other matters, as well as making copies thereof available for public inspection unless the report is restricted by law or regulation or contains confidential or sensitive information.
- Acknowledging the auditor's role (if any) in preparing draft financial statements and related notes, or in converting cash-basis financial statements to accrual-based financial statements.
- Reviewing, approving and taking responsibility for the financial statements and related notes.
- Identifying for you previous financial audits, attestation engagements, performance audits or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
- Applying a process to track the status of audit findings and recommendations.
- Providing views on any of your current findings, conclusions and recommendations, as well as management's planned corrective actions, for the report and the timing and format for providing that information.
- Taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements or abuse that you report.

Fees and billings

We estimate that our fees for our 2011 Audit Services will be $74,200, including expenses. Given that a Type II SAS 70 report from Chartis Claims, Inc (Chartis) will not be provided, we will need to complete additional procedures related to the BRIM claim information processed by Chartis. Such procedures include the understanding, identification and testing of certain internal controls over the claims processed by Chartis related to BRIM. We estimate that our fees for these additional procedures in conjunction with the 2011 audit will be $16,000. However; our actual fee may exceed this based on changes to the business (e.g., nature of the business or change in business entities) or out-of-scope work. Our fee estimate assumes that BRIM personnel will prepare the financial statements and the closing book forms to be provided to the FARS, including combining or eliminating entries, other financial information and footnote information with supporting schedules. We will submit our invoices semi-monthly, and payment of them will be due upon receipt and paid within 30 days.

In addition, BRIM shall reimburse us for direct expenses incurred in connection with the performance of the Audit Services. Direct expenses include reasonable and customary out-of-pocket expenses such as travel, meals, accommodations and other expenses specifically related to this engagement. EY may receive rebates in connection with certain purchases, which are used to reduce charges that EY would otherwise pass on to its clients.

Our estimated pricing and schedule of performance (delivery of final reports by October 15, 2011) are based upon, among other things, our preliminary review of BRIM's records and the representations BRIM personnel have made to us (all financial information will be provided on a GAAP basis) and are dependent upon BRIM's personnel providing the customary level of assistance provided in the past in a timely manner, including receipt of the final actuarial report no later than August 31, 2011, preparation of GAAP-based financial statements and FARS closing book forms and receiving a Type II SAS 70 reports with clean opinions from Bank of New York covering a minimum of six months investment processing, respectively. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based (e.g., new auditing standards), we may adjust our fees with the mutual agreement of BRIM, and the planned completion dates will be extended appropriately. In addition, fees for any special audit-related projects, such as assistance with financial statement (including footnotes) or closing book form preparation, material weaknesses in internal control, more than one board meeting, proposed business combinations or research and/or consultation on special business or financial issues (i.e., assistance with and auditing implementation of new accounting standards), will be billed separately from the audit fee referred to above, at the specified rates by level outlined below and will be the subject of other written arrangements supplemental to those in this Agreement.

Level	Rate
National partner/Executive director	$ 600
Partner	360
Senior manager	270
Manager	190
Senior	160
Staff	135
Senior actuary	410
Actuary	315
Client service assistant	57

If we are requested or authorized by BRIM or are required by government regulation, subpoena or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for BRIM, BRIM will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

Other matters

We will review BRIM's Comprehensive Annual Financial Report (CAFR) prepared by BRIM management prior to submission, including the Special Review Committee's checklist prepared by management and provide management with suggested revisions. We will also provide a version of our report of independent auditors for filing with the entity's CAFR. This version will include a sentence at the end indicating, *"We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon."*

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY Firms, who may deal with BRIM or its affiliates directly, though EY alone will remain responsible to you for the Audit Services, and (2) personnel (including non-certified public accountants) from an affiliate of EY or another, any other EY Firm or any of their respective affiliates or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services. Unless prohibited by applicable law, we may disclose BRIM's information to other EY Firms and their personnel to facilitate performance of the Audit Services, to comply with regulatory requirements, or for quality, risk management or financial accounting purposes. Either EY or BRIM may use electronic media to correspond or transmit information relating to the Audit Services, and such use will not, in itself, constitute a breach of any confidentiality obligations.

BRIM shall not, during the term of this Agreement and for 12 months following its termination for any reason, without the prior written consent of EY, solicit for employment, or hire, any current or former partner, principal or professional employee of EY, any affiliate thereof, any other EY Firm or any of their respective affiliates if any such professional either: (i) performed any audit, review, attest or related service for or relating to BRIM at any time (a) during the then current fiscal year of BRIM up to and including the date of the audit report for that year or (b) in the 12 months ended on the audit report date for the immediately preceding fiscal year, or (ii) influences EY's operations or financial policies or has any capital balances or any other continuing financial arrangement with EY.

BRIM may not make a claim or bring proceedings relating to the Audit Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees (all of whom, "EY Persons"). BRIM shall make any claim or bring proceedings only against EY. This paragraph is intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce it. Each EY Firm is a separate legal entity.

We may collect, use, transfer, store or otherwise process (collectively, "Process") BRIM's information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which EY and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations, including, where applicable, the European Union Safe Harbor program of the U.S. Department of Commerce, in which EY participates. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements. If any BRIM information is protected health information under the Health Insurance Portability and Accountability Act, as amended, this Agreement is deemed to incorporate all of the terms otherwise required to be included in a business associate contract relating to such information. BRIM warrants that it has the authority to provide the Personal Data to EY in connection with the performance of the Audit Services and that the Personal Data provided to us has been Processed in accordance with applicable law.

By your signature below, you confirm that BRIM, through its Board of Directors, has expressly authorized you to enter into this Agreement on behalf of, and to bind, BRIM. Either EY or BRIM may execute this Agreement (and any supplements or modifications hereto) by electronic means, and each of EY and BRIM may sign a different copy of the same document.

EY retains ownership in the workpapers compiled in connection with the performance of the Audit Services.

Except for a claim limited solely to seeking non-monetary or equitable relief, any dispute or claim arising out of or relating to the Audit Services, this Agreement or any other services provided by or on behalf of EY or any of its subcontractors or agents to BRIM or at BRIM's request, shall be resolved by mediation or arbitration as set forth in the attachment to this Agreement, which is incorporated herein by reference. Judgment on any arbitration award may be entered in any court having jurisdiction.

If any portion of this Agreement is held to be void, invalid or otherwise unenforceable, in whole or part, the remaining portions of this Agreement shall remain in effect. This Agreement applies to all Audit Services performed at any time (including before the date of this Agreement).

To the extent that EY agrees to perform Audit Services for a subsequent fiscal year, the terms and conditions set forth in this Agreement shall apply to the performance of such Audit Services, except as specifically modified, amended or supplemented in writing by the parties. Changes in the scope of the Audit Services and estimated fees for such services in subsequent fiscal years will be communicated in supplemental letters. We may terminate performance of the Audit Services and this Agreement upon written notice if we reasonably determine that we can no longer provide the

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Audit Services in accordance with applicable law or professional obligations. Upon any termination of the Audit Services or this Agreement, BRIM shall pay EY for all work-in-progress, Audit Services already performed and expenses incurred by us up to and including the effective date of such termination.

EY appreciates the opportunity to be of assistance to BRIM. If this Agreement accurately reflects the terms on which BRIM has agreed to engage EY, please sign below on behalf of BRIM and return one copy to Rob Johnson, 900 United Center, 500 Virginia Street East, Charleston, West Virginia 25301.

Yours very truly,

Ernst + Young LLP

Attachment

Agreed and accepted by:

West Virginia Board of Risk and Insurance Management

By: ______________________________

Stephen W. Schumacher
Chief Financial Officer

Dispute resolution procedures

Mediation

A party shall submit a dispute to mediation by written notice to the other party or parties. The mediator shall be selected by the parties. If the parties cannot agree on a mediator the International Institute for Conflict Prevention and Resolution (CPR) shall designate a mediator at the request of a party. Any mediator must be acceptable to all parties and must confirm in writing that he or she is not, and will not become during the term of the mediation, an employee, partner, executive officer, director or substantial equity owner of any Ernst & Young audit client.

The mediator shall conduct the mediation as he/she determines, with the agreement of the parties. The parties shall discuss their differences in good faith and attempt, with the mediator's assistance, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and shall therefore be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. The mediation proceedings shall not be recorded or transcribed.

Each party shall bear its own costs in the mediation. The parties shall share equally the fees and expenses of the mediator.

Appendix C: Letter of representation

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

90 MACCORKLE AVENUE SW, Suite 203
SOUTH CHARLESTON, WV 25303

(304) 766-2646 ADMINISTRATION
(304) 744-7120 FAX
(800) 345-4669 TOLL FREE WV
www.state.wv.us/brim

Earl Ray Tomblin
Governor

Robert Ferguson, Jr.
Cabinet Secretary

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

October 17, 2011

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

In connection with your audits of the West Virginia Board of Risk and Insurance Management (BRIM) as of June 30, 2011 and 2010 and for the periods 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 financial position, results of operations 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 periods. 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. We also recognize that, as members of management of BRIM, we are responsible for establishing and maintaining effective internal control.

The 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 your representatives all laws and regulations that have a direct and 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.

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.

Uncorrected misstatements

There are no uncorrected misstatements (including the effects of correcting or reversing prior year uncorrected misstatements) relating to the current year financial statements.

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.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees are as follows:

October 5, 2010
December 7, 2010
February 22, 2011
June 28, 2011
August 16, 2011

We have made available to you all minutes of the meetings of shareholders, 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.

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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *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 summarizes 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 date(s) 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.

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. Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

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 34's risk classification. Investments are reported by the BTI 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, 2011 and 2010, estimated based on case basis estimates of claims reported prior to June 30, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010.

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, 2011 and 2010; 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 ASC 850, *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 ASC 450-20, *Contingencies – Loss 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 ASC 450, *Contingencies* nor are there any accruals for loss contingencies included in the balance sheets or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

Oral or written guarantees

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

Purchase commitments

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at June 30, 2011 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 BRIM'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 BRIM.

Independence

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.

Conflicts of interest

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's policy.

Supplementary information

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

Subsequent events

Subsequent to June 30, 2011, 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 BRIM'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 BRIM.

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 BRIM 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,

Charles E. Jones Jr.

Charles E. Jones, Chief Executive Officer

Stephen. W. Schumacher, CPA, Chief Financial Officer

Melody A. Duke

Melody A. Duke, Controller

Appendix D: 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 generally accepted auditing standards, including (in our audit results template) discussion of the type of opinion we are issuing		X
Overview of planned scope and timing		X
Other information in documents containing audited financial statements		X
Our views about the qualitative aspects of the Company's significant accounting practices, including:		
▸ The appropriateness of accounting policies to the particular circumstances of the company including, the adoption of, or a change in, an accounting policy	X	
▸ The effect of significant accounting policies in controversial or emerging areas	X	
▸ Significant accounting estimates		X
▸ Financial statement disclosures and related matters		X
Significant difficulties encountered in dealing with management when performing the audit	X	
Unrecorded misstatements		X
Material corrected misstatements		X
Disagreements with management	X	
Representations we are requesting from management		X
Management's consultations with other accountants	X	
Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	X	
Communication of independence matters	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 in internal control		X
AICPA ethics ruling regarding third-party service providers		X
Other findings or issues regarding the oversight of the financial reporting process	X	

Appendix E: 2011 US property/casualty industry outlook

Executive summary

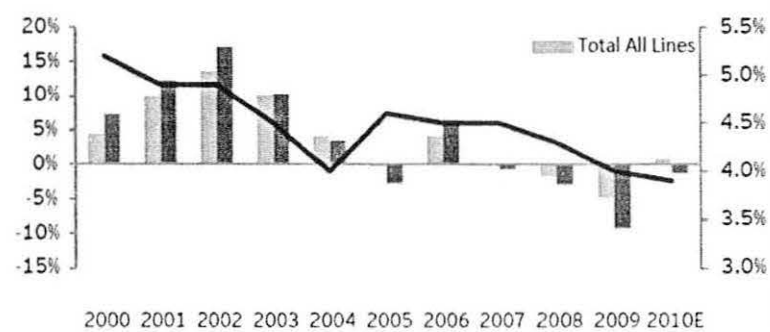
The outlook for the property/casualty industry in the United States in 2011 is one of continuing competitive challenges for individual insurers. Many of the same factors that fostered the soft market conditions in recent years remain in play. The industry is financially strong, thanks to an abundance of capital amassed in 2009 and 2010. Capital positions are at or near an all-time high and continue to drive price competition in the property/casualty insurance industry.

Three other factors are conspiring to maintain the competitive market through at least 2011–a recovery in the value of the industry's assets, access to relatively inexpensive capital and adequate loss reserves to address claim costs. These generally positive factors are contrasted with the industry's ongoing underwriting and investment income pressures. The slow economic recovery, years of price competition and generally low investment returns have compressed the industry's profit margins and are expected to further squeeze individual carrier operating margins. The key performance driver for insurers in this environment is superior underwriting–and a number of leading insurers are using advanced analytics to gain a competitive advantage.

Ernst & Young has identified six issues that will influence the property/casualty industry in 2011:

- Operating in a sluggish US economy
- Enduring the soft underwriting cycle
- Leveraging analytics to drive the growth agenda
- Effectively transitioning to the new accounting standards
- Anticipating regulatory and legislative developments
- Analyzing opportunities for managing excess capital

Figure 4
Change in net premium written and average investment yield*



*Total investment income, excluding capital gains and losses, relative to average cash and invested assets
Source: Insurer statutory filings, Conning Research & Consulting analysis

Operating in a sluggish US economy

The tightening of purse strings by businesses and consumers in the slow-to-heal US economy has had the effect of reducing net premiums for property/casualty insurers, fostering declines in industry revenues and earnings. As Figure 4 indicates, premium income has fallen in the industry in three of the past four years. This has not occurred before; 2005 was the first time in 50 years that the industry experienced a decline in premiums.

Other than a slight increase in property premiums in the aftermath of Hurricanes Katrina, Wilma and Rita in 2005, net premiums declined each successive year by a larger amount until 2010. Commercial lines incurred the largest net premium decreases, and fell by US$33 billion or 14% from the end of 2006 to the end of 2010. Commercial premium growth is expected to remain stunted in 2011.

The decreases in net premiums have been accompanied by decreases in average investment yields, which have shrunk steadily since 2005. Average portfolio book yields have declined by 100 basis points from 2000 to 2010. Three-year Treasury note yields alone have fallen more than 350 basis points from 2006 to 2010, while AAA corporate bond yields have decreased nearly 200 basis points.

Figure 5
The widening performance gap of the 100 largest property/casualty insurers

Quintile	2006 average operating ratio	2009 average operating ratio
Top 20%	62.5%	70.1%
Bottom 20%	81.5%	120.7%
Performance gap	19 pts.	51 pts.

The low investment yields, coupled with the significant declines in net premiums, is compressing the industry's operating margins, which increases the risk that insurers will delay needed or advantageous investments in substantive infrastructure improvements in underwriting, marketing and customer service. Current efforts include increased advertising spending, improvements in underwriting and claims systems, and support services to customer-focused methodologies to increase policy renewal retentions and identify sub-segments with higher expected premium growth. Astute investments in infrastructure enhancements also will prepare insurers to respond to the eventual return of a growth economy. The insurers that have strategically invested in infrastructure improvements have achieved lower combined ratios—even in this era of continued declines in net premiums and rising expense loads.

Enduring the soft underwriting cycle

By better understanding the dynamics of the industry's underwriting cycle, individual insurers can separate their performance from the pack.

Figure 5 illustrates how the performance gap of the 100 largest property/casualty insurers widened from 2006 to 2009, as the industry experienced increasing financial pain from the recurring soft market conditions.

Overperformers have a firmer grasp on pricing trends by a more thorough monitoring of the factors contributing to the industry's cyclicality. These insurers analyze all cyclical indicators available to them to develop their pricing outlook, including underwriting cash flow, loss reserve adequacy, reinsurance capacity, catastrophe losses, policy terms and conditions, loss retentions and other data. Monitoring cyclical trends by line of insurance is crucial in responding to a pricing turn. For instance, the medical professional liability line currently is achieving near-record profits, including both underwriting and operating profits, while workers' compensation combined ratios are above 110%. Sophisticated insurers that understand the various factors pointing to a turn in the underwriting cycle go beyond pricing tactics to position their companies advantageously throughout the cycle. Entering and exiting market segments and redeploying capital, where possible, can lead to wider profit margins and stronger competitive positions.

Leveraging analytics to drive the growth agenda

In the price-competitive property/casualty market, insurers that have strategically collected, analyzed and modeled both legacy and new data streams are turning this information to their competitive advantage. The vast supply of digital information is guiding new sources of economic value and providing fresh insight into markets, customers, suppliers, partners and the enterprise itself.

Insurers spent much of the past decade mining their own disparate data streams, cleaning formerly unusable data and finding new data sources. The latter includes data from such relatively new digital devices as smart phones, laptops, personal sensors and onboard monitoring devices that generate additional streams of new information. There is also a vast array of data to be mined from new customer touch points provided through social networking media. Applications can sift through or "scrape" massive aggregations of data to predict customer behaviors in more refined ways than just a decade ago. This process is far from complete, and the challenge is to transform the wealth of data into actionable information.

Predictive modeling has been effectively employed in personal lines underwriting, where variables such as credit scoring have proven their predictive value. Underwriting applications to commercial markets have shown promise, but are less mature in their development.

While these powerful technical tools are a new strategic building block to drive growth, they require senior managers of property/casualty insurers to develop greater literacy in their use. For example, with new business growth a challenge in the soft market environment, many insurers are sharpening their focus on client retention strategies. Predictive data modeling can provide a deeper understanding of existing customers to minimize client attrition.

To do this will require investments by property/casualty insurers in next-generation predictive analytics that identify target clients, profitable markets and superior distribution partners. It also requires the commitment of senior executives to a new level of literacy in this discipline-or ill-designed applications will serve to worsen the soft market.

Effectively transitioning to the new accounting standards

The likely development of new accounting standards for insurance creates both risks and opportunities for property/casualty companies. While many insurers will treat the transition to the new standards as a compliance exercise, others will leverage the opportunity to reorganize and refine their systems, reporting and risk controls to position the company for success in the new environment.

Following the release of the IASB's ED in July 2010, the FASB released its DP in September 2010. The insurance industry has not faced such significant accounting changes in more than 20 years. The proposals fundamentally alter the measurement basis for insurance contracts and require greater increased disclosure. The likely impact of these accounting changes is greater earnings volatility and possibly increased capital pressure.

This new draft accounting standard has implications well beyond financial reporting and investor relations. The proposed changes could fundamentally alter how insurers design and price new products, in response to the impact of volatility on earnings. There could also be broad-based risk management implications, specifically on asset/liability management, in addition to significant process redesign of valuation and reporting processes, and technology considerations. The degree of impact will depend on the nature of a company's insurance contracts and the complexity of its organizational structure. It is clear, however, that a range of functions and operations will be affected. Senior executives should assess a broad range of business strategies to mitigate the challenges created by the proposed changes, such as future earnings volatility. These accounting changes will consume management focus and company financial resources.

Anticipating regulatory and legislative developments

New national and international laws pose possible unintended consequences for US property/casualty insurers in 2011 and beyond. In the United States, the impact of two recent pieces of legislation—Dodd-Frank and The Patient Protection and Affordable Care Act—remains unclear from a regulatory standpoint, as the supporting regulatory structure is yet to be erected. For insurers with European operations, adding to the regulatory pressures is the updated Solvency II regulations, designed to ensure consistent capital adequacy across all insurers operating in the EU by 2013.

In the US, the Dodd-Frank legislation and the restructuring of the health care sector create both impositions and opportunities for property/casualty insurers. While the target of Dodd-Frank was not the property/casualty industry, the legislation does have elements affecting insurer operations. These include streamlined reinsurance regulations and the creation of a uniform system for non-admitted insurance premium tax collection and regulatory oversight.

The consequences of other elements of the legislation remain unclear and therefore difficult to navigate. For example, the legislation creates two new regulatory bodies to ensure greater stability of the nation's financial system—the FSOC and the Office of Financial Research. Each is granted extensive data-gathering authority, which may affect the reporting requirements and workflows of US-based property/casualty insurers.

The legislation also creates a federal insurance office with powers to assess the effectiveness of the state insurance regulatory system, which may have important implications down the line. Finally, an insurer deemed a "systemic risk" will confront additional regulatory restrictions, and larger insurers may be affected by new regulations governing derivatives transactions.

The Patient Protection and Affordable Care Act affects every organization conducting business within the health care system, including property/casualty insurers. Insurers experience a double impact—as employers and as businesses with operations linked to the health care system. The legislation also poses the possibility of increased cost shifting from the health care system to insurers of workers' compensation and automobile liability.

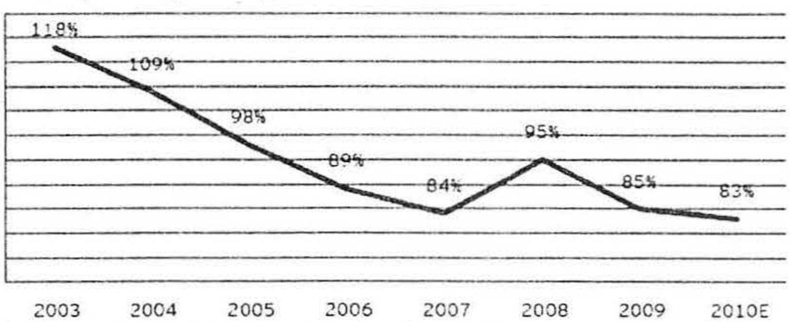
Rather than simply react to the legislative and regulatory changes, US property/casualty insurers can monitor them closely and interact with regulators to help shape their eventual outcome.

Analyzing opportunities for managing excess capital

US property/casualty insurers struggling with sluggish organic growth because of the soft pricing environment and the weak economy can deploy their excess capital by expanding their businesses and making share repurchases.

Many insurers enjoy significant capital funding opportunities from their respective policyholder surplus. As Figure 6 indicates, premium-to-surplus ratios in the US property/casualty industry have been on a downward trend, decreasing to 85% in 2009 from nearly 120% in 2003. Given the slow premium growth outlook and the industry's adequate reserve levels, these ratios are expected to continue the downward trend in 2011, with surplus growing faster than premium.

Figure 6
Property/Casualty industry premium-to-surplus ratios



Source: Insurer statutory filings, Conning Research & Consulting analysis

For some insurers, acquisitions have proved a viable option. In 2010, the number of acquisitions in the industry increased from 2009 levels, although the average deal size remains small because of economic uncertainty, credit availability issues and questions regarding stock valuations.

By and large, the insurers that have implemented acquisitions are seeking to drive expansion in one or more of three areas – enhancing their product offerings or underwriting teams, improving economies of scale and data collection activities, or adding runoff operations to leverage stronger balance sheets and claims settlement capabilities. We expect M&A activity to continue in 2011 at a moderate pace.

Other insurers may benefit by deploying their excess capital into technology and infrastructure improvements. Such investments present sustainable long-term benefits in improved claims handling, service to agents and pricing segmentation strategies. If most insurers continue to trade below book value, our outlook is that, increasingly, insurers will deploy their excess capital into share repurchases, which can be accretive to earnings and book value per share.

Long-term winners will be the insurers with a holistic approach to capital management. As the slower-growth environment continues into 2011, insurers must look for ways to maximize capital returns, and find options that balance these returns with the risks they present.

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1110-1303138

FY-2012 FACT SHEET

AUTHORITIES: United States Homeland Security Presidential Directive 5 (Management of Domestic Incidents, February, 2003); United States NSC Presidential Decision Directive 67 (Ensuring Constitutional Government and Continuity of Government Operations, October, 1998); State of West Virginia Executive Order 13-10 (Ensuring Continuity of Government Operations, November, 2010)

1) The WV Department of Administration Continuity of Operations (DOA COOP) Steering Committee is responsible for design, construction, implementation, exercising, review and timely revision of viable continuity of operations plans for the WV Department of Administration.

2) There are 17 agency divisions within the WV DOA; DOA COOP Steering Committee has oversight duties for individual COOP plans for each of those agencies, as well as responsibility for development of a master plan to facilitate DOA management of resources for recovery of essential operations of the 17 individual DOA agency divisions.

3) DOA COOP incorporates best practices of Disaster Recovery Institute International (DRII), National Fire Prevention Association (NFPA), Incident Command System (ICS), and Homeland Security Exercise and Evaluation Program (HSEEP).

4) DOA COOP has no designated funding mechanism. Costs and expenses are absorbed by individual agencies within DOA as they are accrued.

5) The 4 standing members of the DOA COOP Steering Committee are salaried employees of WV Board of Risk and Insurance Management (3), and the DOA Cabinet Secretary's office (1).

6) The DOA COOP Steering Committee works in coordination with the Continuity of Operations/Continuity of Government Coordinator, WV Department of Homeland Security.

7) The DOA COOP Steering Committee is represented on the Pandemic Flu Policy Workgroup, chaired by the State Health Director, Center for Threat Preparedness, WV Bureau for Public Health.

8) The DOA COOP Steering Committee is organizing and managing DOA efforts with WV DHHR, WVDMAPS, and Kanawha-Charleston Health Department to design, implement, and test a Capitol Complex Closed Point of Distribution, for the purpose of mass prophylaxis or mass inoculation of campus based state employees, members of the legislative branch, members of the executive branch, and members of the judicial branch during a declared health emergency.

9) Oversight of the DOA COOP is by the Cabinet Secretary of the Department of Administration.

10) The DOA COOP Steering Committee consists of:

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Executive Director's Report

February 28, 2012

A. Marshall University and West Virginia University Medical Malpractice Program

- As of February 23, 2012, Marshall has deposited $5,996,802.58 into the escrow account. The year-to-date cumulative interest totals $121,831.13. There have been seven disbursements totaling $1,414,045.86 during fiscal year 2012 thus far.

- As of February 23, 2012, a total of $14,231,680.83 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $125,729.96. There have been eight disbursements totaling $2,692,467.90 during fiscal year 2012 thus far.

B. State Agency/Senate Bill #3 Litigation

The calendar year 2011 litigation results were very favorable. Through December 2011, nine cases have been tried to verdicts, with eight defense verdicts and one plaintiff verdict. New lawsuits have decreased 20.8 % over year-to-date 2010, closed lawsuits have increased 36%, and pending lawsuits have decreased 20%.

C. There are several bills that have been introduced this legislative session that could have an impact on BRIM. We are monitoring those proposed bills which include:

1. HB 4379 and SB 503 relating to the PICF - The purpose of the bill is to remove the limitation that damages must be economic before payments from the WV PICF may be made. Passage of the bill would allow non-economic damages, i.e., pain and suffering; loss of companionship of a loved one, mental anguish, etc., which have no dollar figures to quantify them. We had to complete fiscal notes on the prospective bills. The current balance in the fund

is $3,771,051.23. Currently, there are no provisions for further funding of the PICF. Since the inception of the PICF, there have been five claims; three paid and one denied and one pending.

2. HB2375 relating to Mine Subsidence. The purpose of this bill is to increase the limit of mine subsidence insurance reinsured by the Board of Risk and Insurance Management from $75,000 to $125,000.

3. HB3140 relating to Bureau for Child Support enforcement. The purpose of this bill is to provide for the interception of insurance settlement claims by the Bureau for Child Support Enforcement for the past-due support owed by an obligor and for establishing, modifying or enforcing medical support orders.

4. HB2287 Joint and Several Liability. The purpose of this bill is to abolish joint liability and establish the principle of comparative fault by which each defendant is liable for damages according to the percentage of fault attributed by a judge or jury.

5. HB4380 Uninsured and Underinsured Motorist coverage. The purpose of this bill is to remove the fictional defendant from civil litigation involving first-party claims for uninsured and underinsured motorist benefits and identify the real party in interest.

6. HB4400 Third-party bad faith. The purpose of this bill is to permit a third-party claimant to collect damages from an insurance company that has intentionally engaged in an unfair trade practice.

7. HB4486 Insurance disclosure. The purpose of this bill is to require certain information pertaining to liability coverage by disclosed to the claimant or his or her attorney within thirty days of a written request. It includes:

   a) the insurer's name,
   b) the name of each insured,
   c) limits of liability,
   d) a statement of any policy coverage defense the insurer believes is available, and
   e) a copy of the policy.

D. During this 2012 legislative session, I attended the Department of Administration Senate and House budget presentations. Our budget is practically the same as it was last year with the exception of the increase in personal services. Our budget is approximately $79 million and there is no direct appropriation from the legislature. We are self supporting with all overhead coming from premiums collected.

E. The Independent Insurance Agents of West Virginia Annual Conference was February 26-27 at the Marriott Hotel in Charleston. I was requested to participate as a panelist at the Monday, February 27, 2012 General Session at 2:15 pm. The panelists included:

1. Dr. Austin Wallace, WV Mutual
2. Gregory Burton, BrickStreet
3. Jim Clay, Westfield Insurance
4. Dennis McCormick, Farmers and Mchanics
5. Chuck Jones, BRIM
6. Bob Restrepo, State Auto

F. Disaster Recovery/Business Continuity. BRIM personnel have been charged with facilitating Department of Administration agencies to prepare disaster recovery/ continuity of operations programs. All agencies have a dependency upon the Office of Technology.

G. A recent tragedy at a local hotel in which a tenant died as a result of carbon monoxide poisoning made us aware that we have many entities in which the same unfortunate accident could happen. We decided to initiate a study to determine what our exposure might be; especially those entities that have sleeping rooms on site. The study was championed by the Loss Control Department and reveals that we have a potential considerable exposure—approximately 169 locations. We are not certain how many of our entities currently have installed carbon monoxide detectors in sleeping rooms. Our objective is to identify those risks and make recommendations to those who do not have carbon monoxide detectors installed.

H. State Agency Premium Notices for FY 2014

1. Loss Control Incentive Credit
2. Privacy Incentive Certification Credit
3. Prior Years' Realized Savings

I. Risk Management Information Systems Request for Information (RFI)

J. Budget Narrative

Sincerely yours,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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Chief Financial Officer's Report
February 28, 2012

A. P Card Report

CD copies contain the supporting detail for "P" card purchases for the months of October, November and December, 2011. These totals are:

October	$46,763.49
November	$39,779.41
December	$49,021.85

B. Financial Report

- The financial results presented are for the six months ended December 31, 2011 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of December 31, 2011.
- Operating results for the first six months of FY'12 reflect the impact of increasing claims reserves by $5.0 million since June 30th. The reserve additions also increased claims expense by $5.0 million through December 31, 2011 and is the primary cause for the less favorable operating results compared to a year ago.
- The Fed's decision to support a low interest rate environment through 2013 continues to depress yields on U.S. Treasuries and other government backed securities. Concerns over European sovereign debt problems and the current slow economic growth in the U.S. have also negatively impacted equity market returns in the near term. Lower average yields and the uncertainty in the markets have reduced investment earnings this year.

C. FY'13 State Premiums

- The rates for FY'13 have been finalized for the State program. Overall, the average FY '13 premium rates are up slightly more than 3% vs. FY '12. However, both FY'12 and FY'13 rates include significant reductions in the overall premiums billed that reflect returns to the insureds for prior years' savings that have been realized by the program.

D. AIG Update

- On February 23, 2012, American International Group Inc. (AIG) reported that the after tax operating profit for the 2011 fourth quarter was $1.6 billion compared to a $2.2 billion loss in the prior year quarter. For the full year, after tax operating income was $1.8 billion for 2011 compared to a loss of $0.9 billion for 2010.
- AIG's property and casualty business, Chartis, reported operating income of $1.1 billion for the full year 2011 compared to a loss of $1.1 billion for 2010. John Q. Doyle, chief executive officer of global-commercial business for Chartis, says there was no slow-down in rate momentum to start 2012 and the company is "encouraged by retention relative to the rate we're pushing."

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	December 31 2011	December 31 2010
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 21,626	$ 23,695
Advance Deposit with Carrier/Trustee	200,843	190,053
Receivables - Net	1,181	1,479
Prepaid Insurance	2,748	3,079
Total Short Term Assets	226,398	218,306
Long Term Assets		
Investments	133,193	129,629
Total Long Term Assets	133,193	129,629
TOTAL ASSETS	359,591	347,935
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,538	1,620
Claims Payable	115	238
OPEB Liability	182	181
Agents Commissions Payable	587	671
Unearned Revenue	6,781	7,182
Current Estimated Claim Reserve	46,820	46,451
Total Short Term Liabilities	56,023	56,343
Long Term Liabilities		
Compensated Absences	75	66
Estimated Noncurrent Claim Reserve	84,350	88,792
Total Long Term Liabilities	84,425	88,858
TOTAL LIABILITIES	140,448	145,201
Prior Year Net Assets	219,828	192,207
Current Year Earnings (Deficiency)	(685)	10,527
TOTAL NET ASSETS	219,143	202,734
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 359,591	$ 347,935

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

	December 31	
	2011	**2010**
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 25,915	$ 26,616
Less - Excess Insurance	(2,725)	(3,034)
Total Operating Revenues	23,190	23,582
Operating Expenses		
Claims Expense	25,859	20,033
Property & MS Claims Expense	2,282	2,115
Personal Services	714	690
General & Administrative Expense	1,271	1,411
Total Operating Expenses	30,126	24,249
Operating Income (Loss)	(6,936)	(667)
Nonoperating Revenues		
Investment Income	6,251	11,194
Total Nonoperating Revenues	6,251	11,194
Net Income (Loss)	$ (685)	$ 10,527

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
December 31, 2011
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 7,377	$ 3,941	$ 4,938	$ 5,370	$ 21,626
Advance Deposit with Carrier/Trustee	99,585	101,258	-	-	$ 200,843
Receivables - Net	699	110	372	-	$ 1,181
Prepaid Insurance	1,044	1,704	-	-	$ 2,748
Total Short Term Assets	108,705	107,013	5,310	5,370	226,398
Long Term Assets					
Investments	72,817	25,682	34,694	-	133,193
Total Long Term Assets	72,817	25,682	34,694	-	133,193
Total Assets	$ 181,522	$ 132,695	$ 40,004	$ 5,370	$ 359,591
Liabilities					
Short Term Liabilities					
Accounts payable	541	940	57	-	1,538
Claims Payable	81	34	-	-	115
OPEB Liability	85	89	8	-	182
Agents Commissions Payable	-	587	-	-	587
Unearned Revenue	-	6,076	705	-	6,781
Current Estimated Claim Reserve	26,692	19,323	805	-	46,820
Total Short Term Liabilities	27,399	27,049	1,575	-	56,023
Long Term Liabilities					
Compensated Absences	36	36	3	-	75
Estimated Noncurrent Claim Reserve	52,670	31,527	153	-	84,350
Total Long Term Liabilities	52,706	31,563	156	-	84,425
Total Liabilities	80,105	58,612	1,731	-	140,448
Prior Year Net Assets	104,908	71,859	37,735	5,326	219,828
Current Year Earnings (Deficiency)	(3,491)	2,224	538	44	(685)
Total Net Assets	101,417	74,083	38,273	5,370	219,143
Total Liabilities and Retained Earnings	$ 181,522	$ 132,695	$ 40,004	$ 5,370	$ 359,591

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the six months ending December 31, 2011
(in thousands)

DRAFT

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 12,786	$ 11,801	$ 1,287	$ 41	$ 25,915
Less: Excess Insurance	$ (1,022)	$ (1,703)	$ -	$ -	$ (2,725)
Total Operating Revenues	$ 11,764	$ 10,098	$ 1,287	$ 41	$ 23,190
Operating Expenses					
Claims Expense	16,710	9,055	94	-	25,859
Property & MS Claims Expense	898	1,106	278	-	2,282
Personal Services	351	324	39	-	714
General and Administrative Expense	326	933	12	-	1,271
Total Operating Expenses	18,285	11,418	423	-	30,126
Operating Income (Loss)	(6,521)	(1,320)	864	41	(6,936)
Nonoperating Revenues					
Investment Income	3,030	3,544	(326)	3	6,251
Total Nonoperating Revenue	3,030	3,544	(326)	3	6,251
Net Income (Loss)	$ (3,491)	$ 2,224	$ 538	$ 44	$ (685)

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LOSS CONTROL REPORT TO THE BOARD
FEBRUARY 2012

Since our last meeting, a vacancy has arisen within the department. Beth Baldwin accepted a position with WVU Extension Services dealing with 4H in Putnam County. Beth indicated that she wasn't unhappy here at BRIM, rather her new position allows her to do something that she has always loved. We are currently assessing our Departmental needs and structure and hope to be able to fill the vacancy in the very near future.

The Senate Bill #3 loss control questionnaires were due to BRIM on January 1, 2012. Since that time, we have been evaluating those questionnaires to apply credits and/or surcharges based on insured participation in our Standards of Participation program. We should complete the evaluation process during the month of March. To date, we have completed 562 evaluations.

We continue to assist the Department of Administration as it evaluates the Capitol Complex Day Care Center. Jeremy has met with Deputy Cabinet Secretary Cedric Greene on several occasions and has provided written recommendations with regard to the Day Care Center.

We are continuing our partnership with the Division of Personnel with regard to a class entitled "Workplace Safety: Your Responsibility". This program is available to all state agencies.

We are also continuing our partnership with the West Virginia Public Service Commission by contributing risk management news articles for inclusion in their quarterly newsletter, "*The Pipeline*". This newsletter is distributed to public utility organizations and public service districts throughout the state.

During the months of November, December, January and February, Aon conducted 191 inspections and CHUBB conducted 528. The reports are being processed according to established procedures.

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

10 Loss Control Visits

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

9 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.

4 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.

As is the case each year, the number of loss control visits is markedly reduced during the period in which we evaluate loss control submissions. The coming months look to be very busy ones.

Dated: 2-27-2012

Respectfully submitted,

Robert A Fisher

Robert A Fisher.
Deputy Director *and* Claim Manager

STATE OF WEST VIRGINIA
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BOARD OF RISK AND INSURANCE MANAGEMENT

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SOUTH CHARLESTON, WV 25303

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www.state.wv.us/brim

Earl Ray Tomblin
Governor

Robert Ferguson, Jr.
Cabinet Secretary

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

AGENDA

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

November 15, 2011

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes August 16, 2011

REPORTS

Charles E. Jones, Jr. Executive Director	Executive Director's Report
Rob Johnson/Susan Wheeler Ernst & Young	June 30, 2011 Audited Financial Report from Ernst & Young, LLP
Jo Ellen Cockley AON Risk Consultants	June 30, 2011 Actuarial Report from AON
Scott Mountain/Robert Bayston Standish Mellon Asset Management	Portfolio Performance and Economic Outlook
Tom Sauvageot West Virginia Investment Management Board	Investment Update
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
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MINUTES OF THE MEETING
OF THE
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

November 15, 2011

BOARD MEMBERS:	John R. Lukens, Esquire, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Chuck Mozingo, Assistant Claim Manager Jerry Gladwell, Underwriting Manager John Fernatt, IT Manager Melody Duke, Controller Jeremy Wolfe, Loss Control Manager Jill-Farrar Brown, Loss Control Specialist Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry “Skip” Morris, Wells Fargo Insurance Services Charles Waugh, Chartis Joanna Valleau, Chartis
GUESTS:	JoEllen Cockley, AON Susan Wheeler, Ernst & Young Rob Johnson, Ernst & Young Scott C. Mountain, Standish Mellon Asset Management Robert Bayston, Standish Mellon Asset Management

Brian Carrico, MU School of Medicine
Ed Phillips, WVU Health Sciences Center
Tracy Smith, Marshall University
Tom Sauvageot, West Virginia 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 1:05 p.m. on Tuesday, November 15, 2011, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Vice Chairman Martin moved the approval of the minutes of the August 16, 2011 Board Meeting. The motion was seconded by Mr. Cunningham. 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.

Recognizing the lengthy agenda, Mr. Jones briefly summarized the topics covered in his report, highlighting the status of the workers' compensation program and noting that BRIM has been included in the dialogue with Secretary Ferguson, Secretary Lorensen and Acting Insurance Commissioner Riley for achieving claim reductions and implementing a Return to Work program.

Mr. Jones further explained that the BRIM Privacy Project has been very successful in reducing the number of Personally Identifiable Information (PII) claims, and that correspondence has been sent to the non-Executive branch agencies to allow them to participate as well. Training certification must be completed by November 30, 2011, after which a self-assessment will be conducted and, if verified, premium discounts will be implemented for the 2013 fiscal year. He also noted that as a part of this program, all laptops with PII will have to be encrypted or scheduled to be encrypted.

Mr. Jones mentioned that the need to re-institute the escrow payments that were suspended three years ago is still being studied.

Mr. Jones went on to state that in July, BRIM personnel had met with WVU legal representatives regarding their desire to have more input in the selection of counsel in the management of medical malpractice and general liability claims. A letter dated October 5, 2011 expressing their concerns was received by BRIM on October 7th, and a reply is forthcoming soon.

There being no questions for Mr. Jones, Chairman Lukens recognized Rob Johnson and Susan Wheeler of Ernst & Young (E & Y), financial auditors for the West Virginia Board of Risk and Insurance Management, who presented the annual audit results as of June 30, 2011. The report entitled “West Virginia Board of Risk and Insurance Management, 2011 audit results and communications” was previously distributed to the Board members.

Mr. Johnson deferred to Ms. Wheeler to present the report on required communications. She began by stating that E & Y has issued an unqualified opinion on BRIM’s financial statements for the year ended June 30, 2011, which is contained on page 1 of Appendix A of the financial statement. She further stated that in the coming weeks, BRIM’s Comprehensive Annual Financial Report for 2011 will be completed, at which time E & Y will also be reviewing the report and providing BRIM with comments for use in applying for the GFOA certificate.

Ms. Wheeler further stated that E & Y had issued a report on internal control over financial reporting , attached as an appendix to the financial statement, and that no significant deficiencies or material weaknesses were noted.

Referring to Page 3 of the 2011 audit results document, Ms. Wheeler noted the areas of audit emphasis and stated that there were no significant changes in their planned audit approach or areas of audit emphasis

Ms. Wheeler particularly noted that there were no unrecorded audit differences for the 2011 audit, and there were no material corrected misstatements brought to the attention of management.

After summarizing the required communications, Industry analysis, and Industry trends, Ms. Wheeler stated that E & Y had no disagreements with management, and a copy of the letter of representation which BRIM management signed is contained in Appendix C.

Mr. Johnson continued with the presentation and briefly explained the information in Appendices A through E.

Ms. Wheeler pointed out that the Report on Internal Control is on page 54. Mr. Johnson thereafter noted that this report is required by Government Auditing Standards and stated that E & Y does have to consider internal controls over financial reporting; accordingly, during the audit, if E & Y sees deficiencies, they have to communicate those. On page 55, it states that E & Y does have to be aware of compliance matters and be able to report any that were to become an issue.

Mr. Jones interjected that he wanted to make the Board aware of a few things regarding the significance of the independent audit and the CAFR. He explained that BRIM is a member of the State Risk Management Association, and for the past five or six years, he has had the privilege of serving on the Board of Directors for the State Risk Management Association (STRIMA), an association of all of the other state risk management entities, as well as on the Best Practices Committee. Mr. Jones further stated that he was happy to say that there is no other state risk management program that conducts an independent audit like the West Virginia BRIM does, unless it's incorporated within the State audit that they are acting with, as opposed to our own independent audit. With regard to the CAFR, there's no other state agency risk management organization that does a CAFR, so it's pretty significant for us to do the independent audit and to have the CAFR reviewed and certified for excellence in financial reporting, which tends to exemplify what it is we try to do—to be transparent and be careful with the State's money.

Mr. Johnson concluded his presentation by noting that BRIM's financial reporting is excellent and that those at BRIM do a great job.

There being no questions about the 2011 audit, Chairman Lukens called upon JoEllen Cockley of AON to present the June 30, 2011 actuarial report.

(For the convenience of the Board, a copy of the Risk Funding Study as of June 30, 2011 was previously distributed for their reference.)

During her presentation, Mrs. Cockley noted that the STRIMA organization has recently come out with a Cost of Risk survey for fiscal year 2010. In her opinion, the two major highlights of this report are: 1) property loss rates have generally been stable over the past four to five years, and 2) the tort liability, which includes GL, employment practices liability, and medical malpractice were stable from the 2006-2008 period and then have been decreasing slowly over time.

In closing, Ms. Cockley noted that as they gear up to do the June 30th study, they looked at and compared what the actual loss emergence was compared to our expectations. The actual loss emergence was significantly better--$6 million better on a paid loss basis and $14 million better on an incurred loss basis.

Ms. Cockley thereafter stated they are continuing to see the GL SB3 program perform significantly better than expectations. The auto program also does slightly better than expectations as well, and the State Spending Units did a little better than expectations as well. The Med Mal program on the State Spending Unit side is a little more mixed. This program is a lot more volatile.

Ms. Cockley then noted that with regard to the loss estimates, there was a $9 million decrease this year, or about 7% of reserves as compared to last year.

In continuing with her presentation, Ms. Cockley touched upon the Medical Malpractice Deductible study, which was updated over the summer just to validate the deductible factors that are being used currently in the program.

Ms. Cockley also noted that Property has had a good year—no large claims, but we do have two open $500,000 claims right now.

In closing, Ms. Cockley stated that from a forecast perspective, AON is continuing to discount our loss forecast at 4%. The exposure estimates have been relatively flat in all the programs, which is good from a market share perspective. The loss rates are moving appropriately based on how they're moving. The SB #3 forecasts are coming down. The State Spending Unit forecasts are relatively flat or up slightly.

In conclusion, Ms. Cockley stated that it was another good year in the program, and AON is continuing to monitor what is going on with the Senate Bill #3 side with the GL changes.

Ms. Cockley thereafter asked if there were any questions, to which Mr. Cunningham referred to the two Unpaid Loss definitions on page 7 of the Risk Funding Study. He asked if one was an overall definition and the second definition was how it shows up in the financial statement. In response, Ms. Cockley stated that they are actually equivalent. She stated that unpaid losses are comprised of the case reserves that the claims adjusters are actually putting on the claims, and then the actuarially-determined provision for either development on those known claims and/or new claims—collectively known as the IBNR. So unpaid losses are the case reserves plus the IBNR provision. When you add those two together, that's unpaid loss, which is just the difference between ultimate and paid.

There being no further questions, Chairman Lukens introduced Scott Mountain and Robert Bayston of Standish Mellon Asset Management.

Mr. Mountain began his presentation by explaining that Standish Assets Management is a fixed income manager. They are a wholly-owned subsidiary of the Bank of New York Mellon and manages only fixed income assets.

Mr. Mountain then called upon Mr. Bayston to explain the presentation handout entitled "Standish, A BNY Mellon Company."

Upon the conclusion of Mr. Bayston's presentation and there being no questions, Chairman Lukens recognized Tom Sauvageot of the Investment Management Board, who briefly explained the sections Asset Allocation, Asset Class Performance, and Performance contained in the Investments handout previously distributed . During this discussion, Mr. Sauvageot noted that US TIPS were nothing but U.S. Treasuries; but instead of just the standard coupon, they have an inflation component, so essentially you are going to get the inflation rate plus a small real interest rate, which is about zero.

There being no questions, Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of September 30, 2011 and the unaudited income statement for the three months ending September 30, 2011 were received and filed, as were the same reports by line of business, copies of which are attached and made a part of the record.

A CD containing copies of the July, August and September 2011 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the May and June billings. The acknowledgement form is 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 2:35 p.m.

John R. [illegible] 2/28/2012

Board Chairman Date

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DEPARTMENT OF ADMINISTRATION
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Executive Director's Report

November 15, 2011

A. State Agency Workers' Compensation Program

Since the Office of the Insurance Commissioner (OIC) awarded the contract to Zurich NA Insurance Company effective October 1, 2011, there has been a conscientious effort to include BRIM in working towards reducing the cost of state agency claims.

Department of Administration Secretary Rob Ferguson, CFO Steve Schumacher and I met with Department of Revenue Cabinet Secretary Charlie Lorensen and Acting Insurance Commissioner Mike Riley to establish a dialogue as to how we can cooperatively work together to achieve claim reductions.

One of the primary objectives is to implement a Return to Work program to assist injured state workers in transitioning back to work sooner than has been done in the past.

We are pleased to be included and will endeavor to provide whatever assistance we can offer.

B. BRIM Privacy Project

Previously, I informed the Board that BRIM had entered into a Memorandum of Understanding (MOU) with the WV Health Care Authority (HCA). The HCA is the agency responsible for administering a program and training employees regarding our collective commitment in protecting PII (personally identifiable information). We have experienced some claims involving the negligent dissemination of PII, and obviously the need for training exists. BRIM provided a premium discount to agencies for their commitment to complete the required training by January 15, 2011. The premium discount applies to premiums for the period July 1, 2011 through June 30, 2012.

The program proved very successful in that the number of PII claims reduced. This program was initially begun for the Executive branch agencies. On September 26, 2011, correspondence was mailed to non-Executive branch agencies to allow them to participate as well. Training certification must be completed by November 30, 2011. Upon verification of complete certification, premium discounts will be implemented for the period July 1, 2012 through June 30, 2013.

C. Marshall University/WVU Medical Malpractice Deductible Program

- As of October 31, 2011, Marshall has deposited $5,496,833.97 into the escrow account. The year-to-date cumulative interest totals $121,240.49. There have been five disbursements totaling $10,556.06 during fiscal year 2012 thus far.

- As of October 31, 2011, a total of $12,347,982.57 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $125,088.10. There have been six disbursements totaling $1,463,753.63 during fiscal year 2012 thus far.

D. Marshall University/West Virginia University Escrow Payments

We are still studying the issue of whether there is a need to re-institute the escrow payments that were suspended three years ago. There is no definitive position at this time. We are working with our actuaries and will comment as soon as the review is complete.

E. West Virginia University Management of Medical Malpractice and General Liability

On July 13, 2011, we met with representatives of WVU Legal Affairs Department regarding their desire to have more input in the selection of counsel, not only for medical malpractice but for general liability coverage as well. WVU reduced their concerns to writing on October 5, 2011and was received by BRIM on October 7, 2011. We have not replied to their request but will do so shortly.

F. Litigation

Through October 2011, seven cases have been tried, resulting in five defendant verdicts and two plaintiff verdicts. New lawsuits year-to-date are down 26.9%, as compared to year-to-date 2010.

G. Legislative Issues

There are no pertinent legislative issues currently. BRIM will appear before the Joint Committee on Government and Finance on Wednesday, November 16, 2011.

Sincerely yours,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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Chief Financial Officer's Report
November 15, 2011

A. P Card Report

CD copies contain the supporting detail for "P" card purchases for the months of July, August and September, 2011. These totals are:

July	$33,731.13
August	$20,978.87
September	$45,367.76

B. Financial Report

- The financial results presented are for the quarter ended September 30, 2011 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of September 30, 2011.
- Operating results for the first three months of FY'12 reflect the impact of bolstering claims reserves by $4.5 million during the current quarter. The reserve additions also increased claims expense for the current quarter and is the primary reason for the less favorable operating results compared to a year ago.
- The Fed's decision to support a low interest rate environment through 2013 continues to impact the yields on U.S. Treasuries and other government backed securities. Concerns over European sovereign debt problems have also negatively impacted equity market returns in the near term both in the U.S. and globally. Lower average yields and the uncertainty in the markets have dampened investment earnings for the current quarter.

C. AIG Update

- On November 4, 2011, American International Group Inc. (AIG) reported a third-quarter loss of $4.1 billion. The loss was driven by declines in equity markets, widening credit spreads and lower interest rates. This compares with a $2.5 billion loss for the third quarter last year.
- AIG's property and casualty business, Chartis, had an operating income of $442 million for the quarter compared to $1.1 billion for same quarter a year ago. Chartis' reported claims losses for the third quarter included a $62 million addition for adverse prior year loss reserve development.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
September 30, 2011
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 10,178	$ 3,809	$ 4,456	$ 5,358	$ 23,801
Advance Deposit with Carrier/Trustee	98,447	99,836	-	-	$ 198,283
Receivables - Net	528	54	372	-	$ 954
Prepaid Insurance	997	2,074	-	-	$ 3,071
Total Short Term Assets	110,150	105,773	4,828	5,358	226,109
Long Term Assets					
Investments	70,945	25,022	33,802	-	129,769
Total Long Term Assets	70,945	25,022	33,802	-	129,769
Total Assets	$ 181,095	$ 130,795	$ 38,630	$ 5,358	$ 355,878
Liabilities					
Short Term Liabilities					
Accounts payable	402	714	38	-	1,154
Claims Payable	3	85	36	-	124
OPEB Liability	85	89	8	-	182
Agents Commissions Payable	-	325	-	-	325
Unearned Revenue	-	6,089	705	-	6,794
Current Estimated Claim Reserve	26,924	18,946	768	-	46,638
Total Short Term Liabilities	27,414	26,248	1,555	-	55,217
Long Term Liabilities					
Compensated Absences	36	36	3	-	75
Estimated Noncurrent Claim Reserve	53,006	30,912	146	-	84,064
Total Long Term Liabilities	53,042	30,948	149	-	84,139
Total Liabilities	80,456	57,196	1,704	-	139,356
Prior Year Net Assets	104,908	71,859	37,735	5,326	219,828
Current Year Earnings (Deficiency)	(4,269)	1,740	(809)	32	(3,306)
Total Net Assets	100,639	73,599	36,926	5,358	216,522
Total Liabilities and Retained Earnings	$ 181,095	$ 130,795	$ 38,630	$ 5,358	$ 355,878

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the three months ending September 30, 2011
(in thousands)

		Total State		Total SB3		Mine Subsidence		BRIM HB 601		Total
Operating Revenues										
Premium Revenues	$	6,538	$	5,872	$	684	$	-	$	13,094
Less: Excess Insurance	$	(511)	$	(852)	$	-	$	-	$	(1,363)
Total Operating Revenues	$	6,027	$	5,020	$	684	$	-	$	11,731
Operating Expenses										
Claims Expense		9,637		4,139		51		-		13,827
Property & MS Claims Expense		699		605		195		-		1,499
Personal Services		180		165		22		-		367
General and Administrative Expense		164		482		6		-		652
Total Operating Expenses		10,680		5,391		274		-		16,345
Operating Income (Loss)		(4,653)		(371)		410		-		(4,614)
Nonoperating Revenues										
Fees and Assessments		-		-		-		31		31
Investment Income		384		2,111		(1,219)		1		1,277
Total Nonoperating Revenue		384		2,111		(1,219)		32		1,308
Net Income (Loss)	$	(4,269)	$	1,740	$	(809)	$	32	$	(3,306)

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	September 30	
	2011	2010
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 23,801	$ 25,564
Advance Deposit with Carrier/Trustee	198,283	189,094
Receivables - Net	954	1,174
Prepaid Insurance	3,071	3,201
Total Short Term Assets	226,109	219,033
Long Term Assets		
Investments	129,769	126,379
Total Long Term Assets	129,769	126,379
TOTAL ASSETS	355,878	345,412
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,154	905
Claims Payable	124	36
OPEB Liability	182	181
Agents Commissions Payable	325	1,538
Unearned Revenue	6,794	7,097
Current Estimated Claim Reserve	46,638	44,765
Total Short Term Liabilities	55,217	54,522
Long Term Liabilities		
Compensated Absences	75	66
Estimated Noncurrent Claim Reserve	84,064	89,745
Total Long Term Liabilities	84,139	89,811
TOTAL LIABILITIES	139,356	144,333
Prior Year Net Assets	219,828	192,207
Current Year Earnings (Deficiency)	(3,306)	8,872
TOTAL NET ASSETS	216,522	201,079
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 355,878	$ 345,412

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

	September 30	
	2011	2010
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 13,094	$ 13,457
Less - Excess Insurance	(1,363)	(1,516)
Total Operating Revenues	11,731	11,941
Operating Expenses		
Claims Expense	13,827	11,371
Property & MS Claims Expense	1,499	856
Personal Services	367	353
General & Administrative Expense	652	660
Total Operating Expenses	16,345	13,240
Operating Income (Loss)	(4,614)	(1,299)
Nonoperating Revenues		
Fees and Assessments	31	7
Investment Income	1,277	10,164
Total Nonoperating Revenues	1,308	10,171
Net Income (Loss)	(3,306)	8,872

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Loss Control Report to the Board
November 2011

Jill Farrar-Brown has been nominated for election to the Kanawha Putnam Emergency Planning Committee's Board of Directors. The election is scheduled to take place on December 14th. We congratulate Jill and hope she is elected.

Jill Farrar-Brown and Carl Baldwin assisted the Kanawha Putnam Emergency Planning Committee in the planning and execution of Shelter-In-Place Emergency Drills for both the Kanawha and Putnam County Boards of Education during the month of September.

Jeremy Wolfe has been working with the Department of Administration with regard to evaluation of potential security vulnerabilities at the Capitol Complex Day Care Center.

We are in the process of compiling a safety and loss control contact database which will provide information on all of the entities insured under our program. We hope to have this completed by March 2012.

We were contacted by the Risk Management Department for the State of Florida seeking information on our loss control credit and surcharge program. They were particularly impressed with our program.

Loss Control Questionnaires were sent to our SB#3 entities last month. They are due to be submitted to us by January 1, 2012.

Our annual boiler safety and operational seminars were held on October 17 and 18, with approximately 175 persons in attendance. It should be noted that more people attended these seminars than any other we've previously held.

During the months of September, October, and November AON conducted 149 inspections and CHUBB conducted 145. The reports are being processed according to established procedures.

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

21 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.

33 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.

7 Presentation Visits

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

1 Inspection Observation Visits

These are visits during which we accompany a vendor inspector During scheduled inspections

4 Continuing Education Visits

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

Dated: 11-14-2011

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director and Claim Manager

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AGENDA

BOARD MEETING
WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT

August 16, 2011

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes June 28, 2011

REPORTS

Charles E. Jones, Jr. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

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

August 16, 2011

BOARD MEMBERS:	John R. Lukens, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member Martin J. Glasser, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Robert Fisher, Deputy Director/Claim Manager Chuck Mozingo, Assistant Claim Manager John Fernatt, IT Manager Melody Duke, Controller Elizabeth Baldwin, Loss Control Specialist Jill-Farrar Brown, Loss Control Specialist Kimberly Hensley, Loss Control Specialist Steve Fowler, BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry “Skip” Morris, Wells Fargo Insurance Services Charles Waugh, Chartis
GUESTS:	Brian Carrico, MU School of Medicine Ed Phillips, WVU Health Sciences Center Tom Sauvageot, West Virginia 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 1:08 p.m. on Tuesday, August 16, 2011, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Glasser moved the approval of the minutes of the June 28, 2011 Board Meeting. The motion was seconded by Mr. Cunningham. 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 BRIM may have to consider reinstating the Marshall and WVU escrow account payments ($500,000 for Marshall and $1,000,000 for WVU annually), which have been suspended since the beginning of fiscal year 2009. However, the disbursements have increased notably for WVU, thus warranting a reconsideration of the suspension. In closing, Mr. Jones stated that he would review this matter and notify the Board of his recommendation within the next three months.

Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of June 30, 2011 and the unaudited income statement for the twelve months ending June 30, 2011 were received and filed, copies of which are attached and made a part of the record.

A lengthy discussion ensured regarding the reserve numbers, after which Mr. Schumacher stated that once BRIM gets the reserve study back, we will adjust to their reserve numbers before we give the trial balance to the auditors for their review.

Mr. Schumacher stated that once BRIM gets the reserve study back, we will adjust to their reserve numbers before we give the trial balance to the auditors for their review.

A CD containing copies of the May and June 2011 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the January, February, March and April 2011 billings. 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 1:59 p.m.

John R. Lib[illegible] 11/15/2011

Board Chairman Date

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

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Earl Ray Tomblin
Governor

Robert Ferguson, Jr.
Cabinet Secretary

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

Executive Director's Report

August 16, 2011

A. State Agency Workers' Compensation Coverage

The state agency workers compensation program RFP responses were due at the Office of the Insurance Commissioner (OIC) on August 10, 2011. There were three responses received:

- BrickStreet Insurance Company
- Chartis Insurance Company
- Zurich Insurance Company

I was asked by Acting Insurance Commissioner, Mike Riley, to serve on the RFP evaluation committee to select the successful carrier for state agency workers compensation.

The prospective carriers are allowed to make presentations to the committee. Two prospective carriers will make presentations on August 16, 2011 and the remaining prospective carrier will make a presentation on August 17, 2011. The cost portion of the RFP response is scheduled to be opened on Friday August 19, 2011. The successful candidate is scheduled to be chosen that same day.

B. Marshall University/WVU Medical Malpractice Deductible Program

- As of July 31, 2011, Marshall has deposited $4,996,802.58 into the escrow account. The year-to-date cumulative interest totals $120,924.37 There have been no disbursements during fiscal year 2012 thus far.

- As of July 31, 2011, a total of $11,541,587.42 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $124,733.32. There have been no disbursements during fiscal year 2012 thus far.

We suspended the requirement for funding an escrow account by the medical schools beginning FY 2009. This amounted to $1,000,000 per year for WVU and $500,000 for Marshall University. So, since that time and including FY 2012, neither school has had to pay into the escrow account--simply repay the disbursements in the escrow account. However, since it appears that medical malpractice claim disbursements are increasing, especially for WVU, over the next few months, we will revisit the program to determine if it is necessary to re-install the trust payment requirement. In FY 2011, there were $4 million disbursed from the escrow account.

C. Litigation

There have been some changes in the system Chartis uses to generate the monthly reports; therefore, their June report has not been completed.

Year-to-date through June 2011, Chartis has tried eight cases, with six defense verdicts and two plaintiff verdicts. One of the plaintiff verdicts was in May in the case of Cecilia Scarberry vs. Marshall University for $125,000.

However, Exhibit #5 of the May 2011 Chartis report for the period ending April 30, 2011 counts new lawsuits received, closed and pending in the current month, year to date, and the previous year to date. Additionally, the report tracks the number of cases tried to verdict during the same time period, and reductions made to legal invoices.

New lawsuits have decreased 38.8% over year-to-date 2010, closed lawsuits have increased 16.8%, and pending lawsuits have decreased 9.5%.

D. Miscellaneous

1. The Certificate of Achievement for Excellence in Financial Reporting has been awarded to the State of West Virginia Board of Risk and Insurance Management by the Government Finance Officers Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This is the 16th consecutive year BRIM has received this award.

2. On July 14th, Robert Fisher attended a Fleet Management Conference at Stonewall Park Resort and Conference Center in Weston/Roanoke, VA.

3. On July 21st, Robert Fisher attended a Loss Management seminar at the Marshall School of Medicine.

4. July 25th - the West Virginia Executive Branch Privacy Self Assessment

5. Steve Schumacher attended an AON Risk Retention Pooling Symposium in Cambridge, Maryland during the period July 31 – August 3, 2011.

6. John Fernatt will be attending a Disaster Recovery Conference in San Diego, California beginning September 11th through the 14th.

7. Chuck Jones, Robert Fisher, Chuck Mozingo and John Fernatt will be attending the 2011 State Risk and Insurance Management Association (STRIMA) Conference in Lexington, Kentucky during September 17 – 23, 2011. Of note is that John Fernatt will be attending on a scholarship from STRIMA due to his assistance in creating the STRIMA web page and other IT-related projects.

8. Bob Miller will be attending the National Association of Subrogation Professionals (NASP) Conference from November 6th through the 9th in Orlando, Florida.

Sincerely yours,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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Chief Financial Officer's Report
August 16, 2011

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of May and June, 2011. These totals are:

May	$37,394.71
June	$22,705.76

B. Financial Report

- The results presented for the fiscal year ended June 30, 2011 are draft and subject to year-end reserve adjustments based on the year-end actuarial review and the completion of the year-end audit. The FY'11 external audit by should be completed by Ernst & Young by mid-October.
- The financial report does not include any adjustment for the actuarially estimated reserves from AON's risk funding study as of June 30, 2011. The study will be completed in early September and will be reviewed by Ernst & Young as part of their normal year-end audit work.
- Operating income reported for FY'11 is $1.7 million vs. $16.1 million for FY'10. Last year's results reflect the impact of the final year-end reserve study which reduced prior years' claims reserves by $19.7 million. This reduced claims expense for the prior year and is the primary reason for the difference in the year-over-year operating income results.
- Uncertainly in the financial markets and the Fed's decision to further increase liquidity provided the impetus for a low interest rate environment for U.S. Treasuries and other government backed securities during the current fiscal year. In fact, the return on funds held in the trust was slightly under 2.5% for the year. This lower interest rate environment contributed to the decreased investment earnings of $6.3 million for the current year and also decreased the year-over-year net income.

C. Government Finance Officers Association (GFOA) Recognition

- GFOA has notified BRIM that it has received the organization's prestigious Certificate of Achievement for Excellence in Financial Reporting for BRIM's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. This is GFOA's highest form of recognition in governmental accounting and financial reporting and represents the 16th consecutive year that BRIM has attained this significant accomplishment.

D. AIG Update

- On August 4th, AIG reported that it had swung to a profit with second quarter net income of $1.8 billion compared to a net loss of $2.7 billion for the second quarter a year ago.
- AIG's property and casualty business, Chartis, had operating income of $789 million for the quarter compared to $955 million a year ago. Also, Chartis' reported claims losses for the second quarter "reflect no significant prior year loss reserve development," AIG says.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	June 30 2011	June 30 2010
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 23,231	$ 29,613
Advance Deposit with Carrier/Trustee	189,211	184,926
Receivables - Net	1,029	1,573
Prepaid Insurance	38	-
Total Short Term Assets	213,509	216,112
Long Term Assets		
Investments	140,522	120,331
Total Long Term Assets	140,522	120,331
TOTAL ASSETS	354,031	336,443
LIABILITIES		
Short Term Liabilities		
Accounts payable	331	538
Claims Payable	101	164
OPEB Liability	-	181
Agents Commissions Payable	1,174	1,230
Unearned Revenue	5,804	6,629
Current Estimated Claim Reserve	44,898	45,707
Total Short Term Liabilities	52,308	54,449
Long Term Liabilities		
Compensated Absences	66	66
Estimated Noncurrent Claim Reserve	88,949	89,721
Total Long Term Liabilities	89,015	89,787
TOTAL LIABILITIES	141,323	144,236
Prior Year Net Assets	192,207	150,958
Current Year Earnings	20,501	41,249
TOTAL NET ASSETS	212,708	192,207
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 354,031	$ 336,443

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

	June 30 2011	June 30 2010
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 52,634	$ 58,007
Less - Excess Insurance	(6,075)	(6,257)
Total Operating Revenues	46,559	51,750
Operating Expenses		
Claims Expense	36,701	25,458
Property & MS Claims Expense	4,369	6,210
Personal Services	1,369	1,453
General & Administrative Expense	2,467	2,493
Total Operating Expenses	44,906	35,614
Operating Income	1,653	16,136
Nonoperating Revenues		
Fees and Assessments	34	32
Investment Income	18,814	25,081
Total Nonoperating Revenues	18,848	25,113
Net Income	20,501	41,249

Loss Control Report to the Board
August 2011

1. This fall we will be offering two boiler safety and operational seminars. Chubb will once again be conducting the seminars and invitational letters will be sent out to our insured announcing the seminars in the coming weeks.

2. We are currently evaluating the loss control questionnaires for state agencies. The submissions were due to BRIM on August 1. This evaluation will be used to calculate loss control credits and surcharges for next year's premium.

3. During the months of June and July AON conducted 163 inspections and CHUBB conducted 375. The reports are being processed according to established procedures.

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

14 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.

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

4 Inspection Observation Visits
These are visits during which we accompany a vendor inspector During scheduled inspections

2 Continuing Education Visits
These are visits which are designed to provide the loss control Specialists with education and training for professional development.

Dated: 8/15/2011

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

Earl Ray Tomblin
Governor
State of West Virginia

BOARD OF RISK AND INSURANCE MANAGEMENT

As of June 30, 2012

Ross Taylor, Acting Cabinet Secretary
Department of Administration