State of West Virginia
Board of Risk and Insurance Management
2013 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
Cabinet Secretary

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

August 29, 2013

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, 2013 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.

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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 167 state agencies, approximately 930 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.

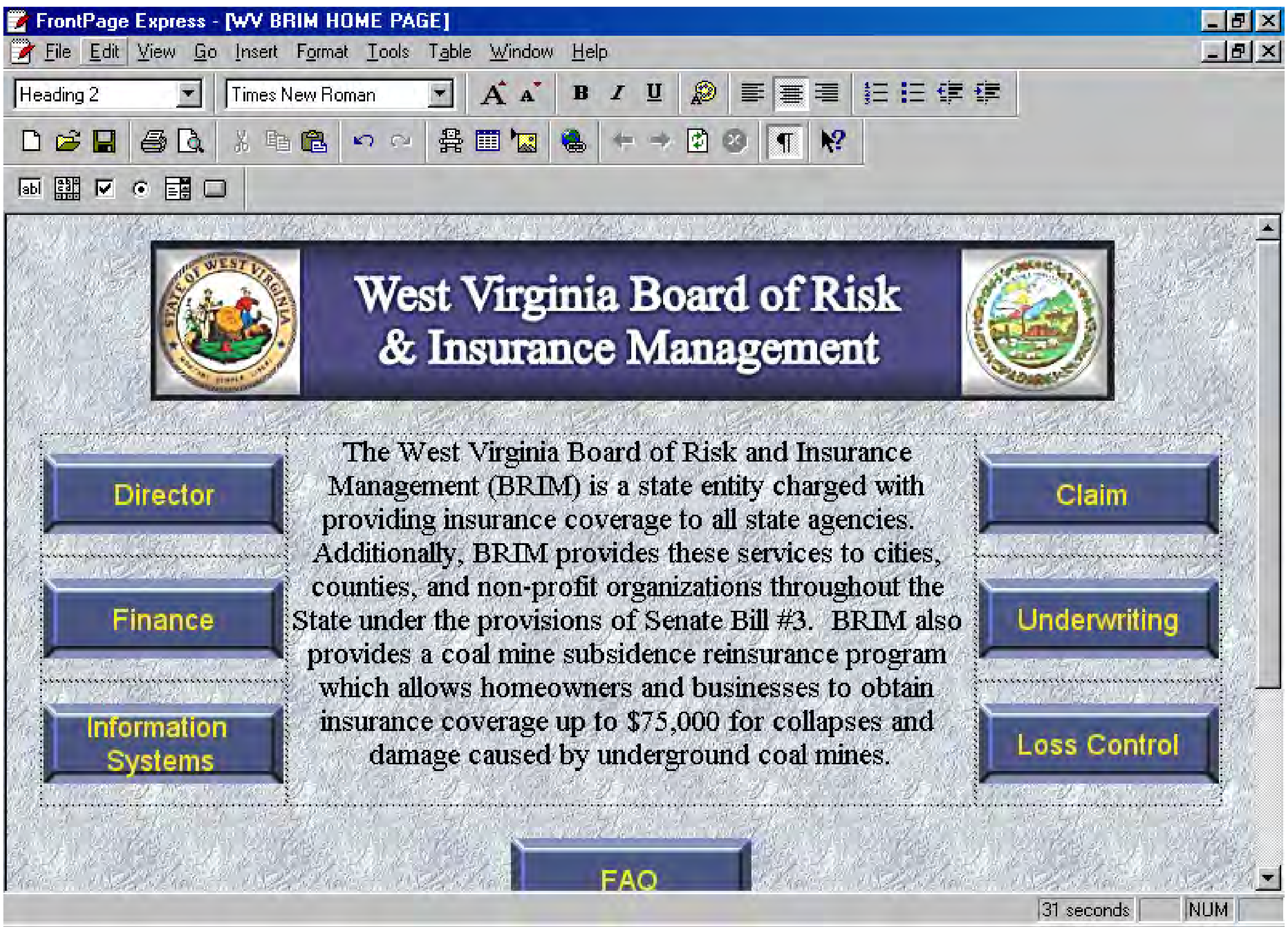
Internal controls have been put in place to ensure the assets and property of BRIM are protected from theft, loss or misuse and to provide adequate accounting data for preparing Generally Accepted Accounting Principles (GAAP) based financial statements.

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.



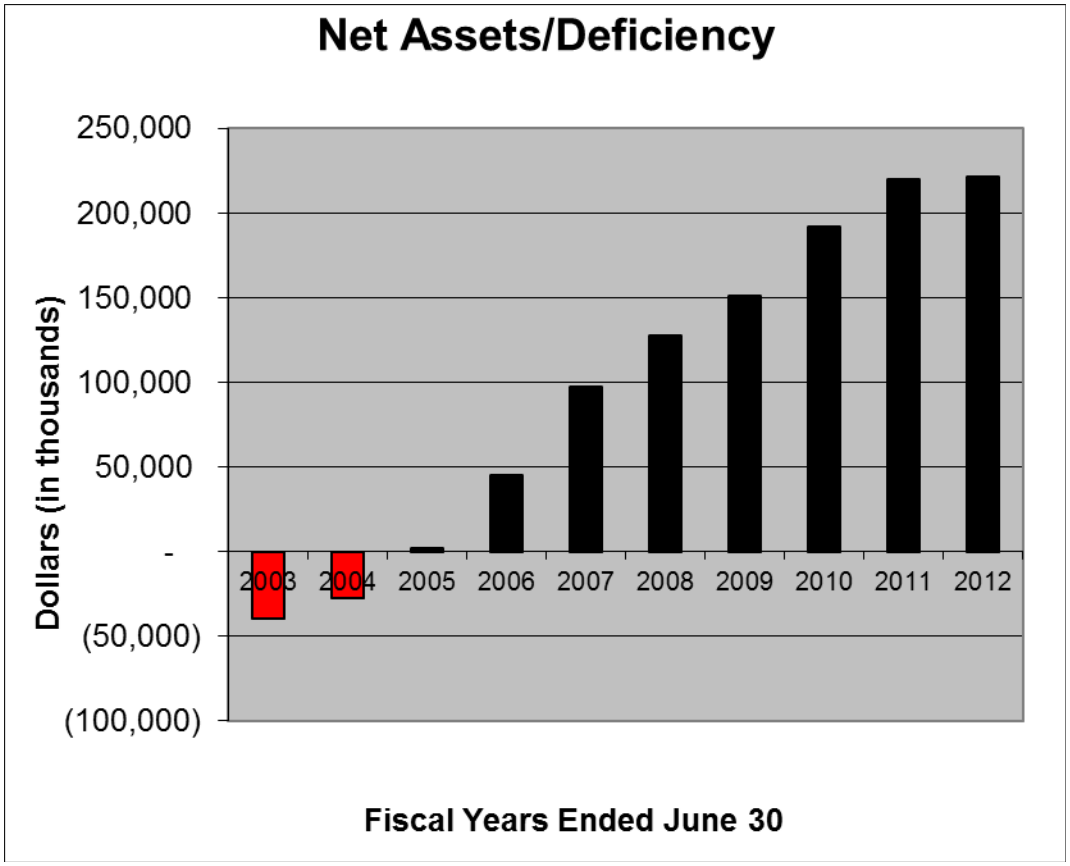
Results of Operations

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

	2009	2010	2011	2012
		(In thousands)		
Operating Revenues:				
Premiums	$62,427	$58,007	$52,538	$51,046
Less Excess Coverages	(5,944)	(6,257)	(6,075)	(5,386)
Net Operating Revenues	56,483	51,750	46,463	45,660
Operating Expenses:				
Claims & Claims Adjustment	36,604	31,668	33,598	53,396
General Administrative	3,894	3,946	4,026	3,892
Total Operating Expenses	40,498	35,614	37,624	57,288
Operating Income (Loss)	15,985	16,136	8,839	(11,628)
Non-Operating Revenues:				
Interest Income, Appropriations	7,343	25,113	18,782	13,315
Net Income	23,328	41,249	27,621	1,687
Retained earnings at beginning of year	127,630	150,958	192,207	219,828
Retained earnings at end of year	$150,958	$192,207	$219,828	$221,515

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 2012. For the two 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, 2013. The June 30, 2013 report will be available near the end of October 2013.

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, 2012, 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, 2013. The CAFR for fiscal year 2013 will be issued before December 31, 2013. A copy of this report will be sent to the Governor's Office upon completion.

Acknowledgments

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

Sincerely,

Charles E. Jones, Jr.
Executive Director

State Listing of Coverages in Effect for Fiscal Year 2013

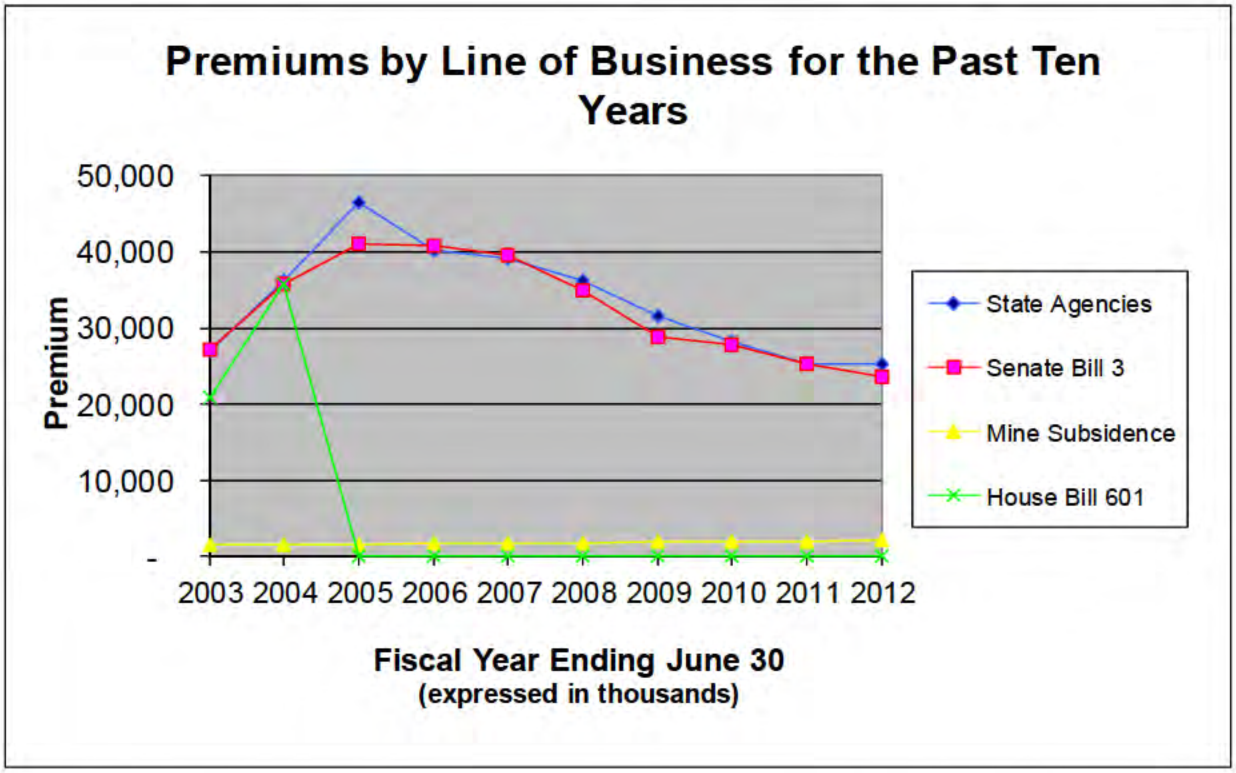
	LIABILITY	LIMIT OF LIABILITY
1.	Automobile Liability Policy No. CA 498-27-72 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
2.	General Liability Policy No. GL 440-64-11 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
3.	Aircraft Liability Policy No. AV003380147-10 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. MAF760728-12 Company: Axis Insurance Company	$ 25,000,000 primary layer $ 1,000,000 deductible
	Policy No. NHD376859 Company: RSUI	$ 175,000,000 in excess of 25,000,000
	Policy No.: MAF733355-12 Company: Axis Insurance Company	$ 200,000,000 in excess of $ 200,000,000
	Policy No. MAF760729-12 Company: Axis Insurance Company	$ 10,000,000 flood with $ 1,000,000 deductible
2.	Boiler and Machinery Policy No. FBP2280385 Company: Hartford Steam Boiler Company	$ 5,000,000 per equipment covered in excess of $1,000,000
3.	Public Insurance Official Position Schedule Bond Bond No. 104745382 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 2012	
1	West Virginia State Police	$4,964,942
2	Division of Highways	4,182,944
3	West Virginia University	3,958,493
4	Department of Health & Human Resources	2,978,812
5	Marshall University	1,450,649
6	Corrections Division	805,078
7	Regional Jail and Corrections Facility Authority	455,334
8	General Services	387,002
9	West Virginia Parkways Authority	383,921
10	West Virginia State Parks	363,094
	Total Top Ten	**$19,930,269**
	Total State Premium Billing for 2012	**25,992,641**
	% of top 10 in relation to all state agency billings	**76.68%**

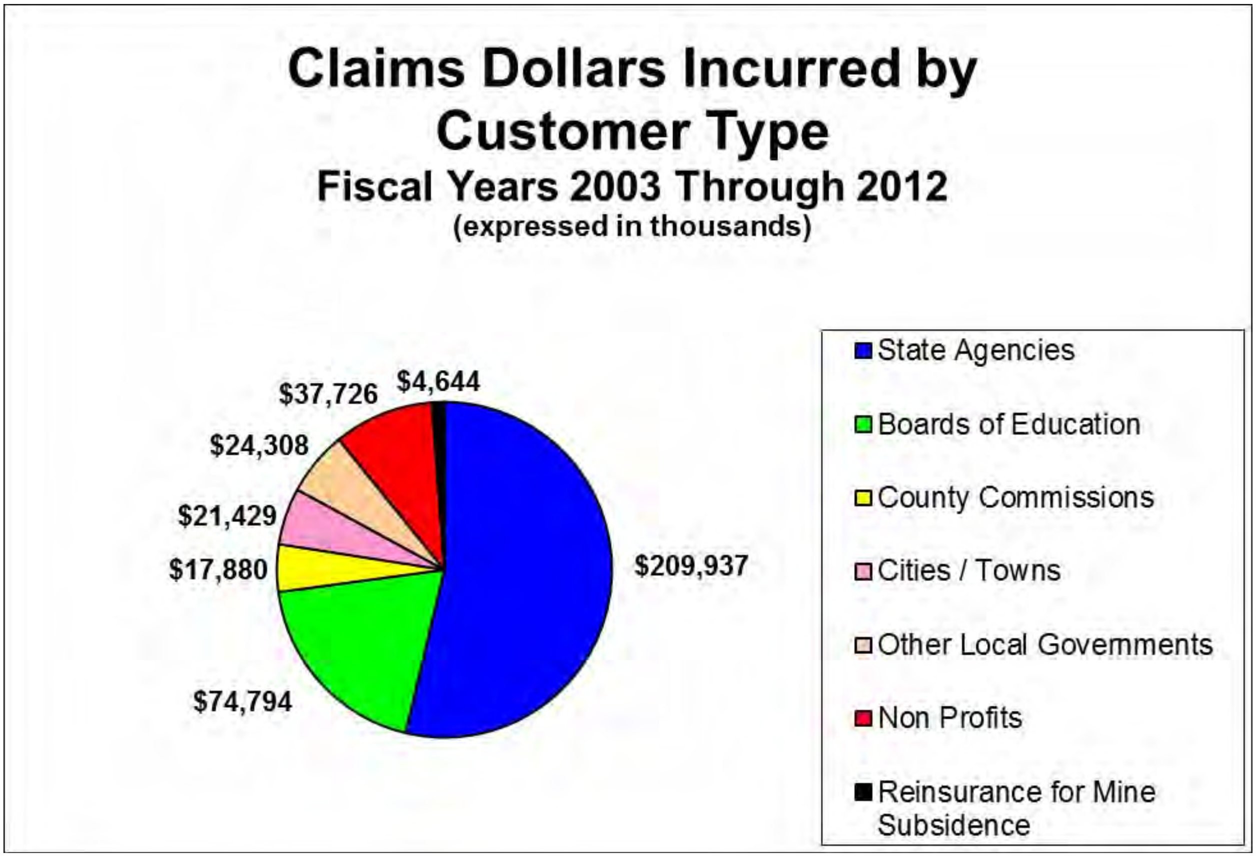
	Top 20 SB 3 Premiums for Fiscal Year 2012	
1	Kanawha County Board of Education	$1,538,088
2	Raleigh County Board of Education	736,094
3	Berkeley County Board of Education	576,609
4	Harrison County Board of Education	482,881
5	West Virginia University Medical Corporation	467,794
6	Putnam County Board of Education	432,648
7	Mercer County Board of Education	426,957
8	Wayne County Board of Education	413,669
9	Cabell County Board of Education	349,942
10	Logan County Board of Education	349,018
11	Marion County Board of Education	347,129
12	Monongalia County Board of Education	340,416
13	Wood County Board of Education	329,960
14	City of St. Albans	316,114
15	Jefferson County Board of Education	308,112
16	Fayette County Board of Education	295,266
17	Ohio County Board of Education	286,951
18	McDowell County Board of Education	273,692
19	Mason County Board of Education	271,871
20	Mingo County Board of Education	262,018
	Total Top Twenty	**$8,805,229**
	Total SB 3 Premium Billing for 2012	**$24,670,477**
	% of top 20 in relation to total SB 3 billings	**35.69%**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
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
2012	$ 25,290	$ 23,603	$ 2,090	$ 63

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 28, 2013

Vice Chairman Martin	Call to Order
Vice Chairman Martin	Approval of Board Minutes February 26, 2013

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

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

May 28, 2013

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member Rob Anderson, Member
ABSENT:	John R. Lukens, Esquire, Chairman
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 Carl Baldwin, Deputy Loss Control Manager John Fernatt, IT Manager Melody Duke, Controller Stephen M. Fowler, Esq., BRIM Counsel Jeremy Wolfe, Loss Control Manager Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Bob Ayers, Wells Fargo Insurance Services Brenda Samples, Wells Fargo Insurance Services Charles Waugh, Chartis Joanne Valleau, Chartis
GUESTS:	Mike Gansor, WVU Risk Management Sandy Price, WVU Health Sciences Center Travis Bailey, Marshall University

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Vice Chairman Martin at 1:06 p.m. on Tuesday, May 28, 2013, 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 26, 2013 Board Meeting. The motion was seconded by Mr. Anderson. 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 the presentation, Mr. Jones announced that the annual report schedule for our investment advisors, auditors and actuaries is being revised. Currently the reports have been presented at one Board Meeting—usually in November or December—which, because of time constraints, makes it very difficult to absorb and comprehend all of them. Therefore, the annual report schedule for the fiscal year ending June 30, 2013 will be as follows: 1) our investment advisors will make their presentation during the first quarter (approximately September) of the current fiscal year; 2) the auditors, during the second quarter (November), and 3) the actuaries, during the third quarter (January-February).

Vice Chairman Martin thereafter presented a brief background about the next topic for discussion in Mr. Jones' report, BRIM's Financials and Adequacy of Net Assets. He explained that at the previous meeting, Chairman Lukens had appointed a committee composed of board members Vice Chairman Martin and Mr. Cunningham, and BRIM management members Mr. Jones, Mr. Fisher, and Mr. Schumacher, to study the adequacy of BRIM's assets and reserves and to thereafter make a report to the full Board. The committee's "intent" in developing this report is varied. The report would explain how BRIM is to handle shortages and/or overages, as well as establish a "gauge" for identifying "adequate" and "inadequate" ranges, and define specific alternative actions or steps to be taken when felt necessary.

Vice Chairman Martin explained that as far as where the committee is now, there has been considerable research, but the adequacy reserves generally cannot be determined normal by applying any formula

Vice Chairman Martin then explained that the committee has looked at three or four methods, and the committee will eventually come to a conclusion, pick a gauge, and then find the range that works best for us. He further stated that although a crisis can always develop and the Board could always change something, the committee wants to have established guidelines in place which we can reference in our deliberations in making decisions.

Vice Chairman Martin thereafter asked Mr. Jones to continue with his report, after which a letter was then placed on the overhead projector for viewing. Mr. Jones identified the letter as that sent to the two Board committee members setting forth some of the findings of the BRIM committee members. Attached to the letter in support of their ultimate recommendation is a four-page Net Assets Reserve Policy specifically for BRIM and two addenda items, BRIM Financial Calculations and External Benchmark Comparison. Mr. Jones stated that some of the problems they had encountered were: there is no national standard for determining how much assets are enough or how much is too much, the methodology for determining this, and what other organizations are doing.

Mr. Jones then explained that the BRIM committee subsequently met to discuss their concerns and came up with the following methodologies: 1) Premium-to-Net Asset Reserve Ratio as compared to other similar agencies; 2) Loss Payment Capital Management Policy; and 3) Baseline Net Assets Reserve Calculation. The methodology being considered for proposal at this time is Premium-to-Net Asset Reserve Ratio as compared to other similar agencies. After further discussion, it was agreed that at some point a formal proposal will be made, but right now it's just a concept.

There being no questions of Mr. Jones, Mr. Schumacher was asked to give his Chief Financial Officer's Report.

Prior to his presentation, Mr. Schumacher announced that Melody Duke, BRIM Controller, would be leaving at the end of the month, and thereafter paid tribute to her contributions during the 19 years spent with BRIM. On behalf of the Board, Vice Chairman Martin also expressed his appreciation for her service and wished her well in her new position.

The unaudited balance sheet as of March 31, 2013 and the unaudited income statement for the nine months ending March 31, 2013 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 2013 purchasing card invoices was distributed to each Board member. The Vice Chairman signed the acknowledgement form for the October, November, and December 2012 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 to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being nothing further, the meeting adjourned at 1:55 p.m.

Board Vice Chairman	Date

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Executive Director's Report

May 28, 2013

A. Marshall University and West Virginia University Medical Malpractice Program

- As of May 24, 2013, Marshall has deposited $1,760,132 into the escrow account. The year-to-date cumulative interest totals $124,446.87. There have been 13 disbursements totaling $2,057,464.35 during fiscal year 2013 thus far.

- As of May 24, 2013, a total of $4,844,415 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $129,680.02. There have been 14 disbursements totaling $5,583,304.34 during fiscal year 2013 thus far.

B. State Agency/Senate Bill #3 Litigation

Litigation results: In 2012, we tried six cases, with five defense verdicts and one plaintiff verdict. So far in 2013, we have tried four cases to a verdict, with two defense verdicts, and two plaintiff verdicts.

C. Cyber Liability. We are still exploring the availability of cyber insurance—first party and liability coverage. It is expected that we will issue an RFP in the near future. Assessing the risk exposures on a statewide basis is the critical and most difficult part. Also, we have informed state agencies what their billing information is to be for FY 2014, which begins July 1, 2013. If we are able to obtain coverage, for example, starting January 1, 2014, we won't be able to invoice agencies until beginning at the earliest July 1, 2015. Consequently, coverage will have to be paid for with current operating funds.

D. Scheduling of Annual Reports

Given the fact that in the past, there has been considerable financial information presented to the Board for comprehension usually at a single Board meeting, we will revise the schedules for which our actuaries, auditors and investment advisors make their annual presentation to the Board. We have communicated our wishes to each and they concur with the revised scheduling. Our investment advisors are to present during the first quarter (approximately September) of the fiscal year; the auditors will present during the second quarter (November) of the fiscal year, and the actuaries are scheduled to present during the third quarter (January – February) of the fiscal year.

E. BRIM's Financials and Adequacy of Net Assets

The committee to study BRIM's financials and the adequacy of BRIM's net assets met formally. BRIM management performed various analyses of BRIM's financial position, which resulted in developing three separate processes for analyzing. The three methods were:

1. Premium-to-Net Asset Reserve Ratio as Compared to Other Similar Agencies;
2. Loss Payment Capital Management Policy; and
3. Baseline Net Assets Reserve Calculation

As a result of the study, BRIM management recommended option #1, *Premium-to-Net Asset Reserve Ratio as Compared to Other Similar Agencies*. The Board Members serving on the committee are to study the analysis and make a recommendation to the full Board.

F. Personnel Issues

Three newspaper advertisements were recently placed in the Charleston Newspapers over the last two weekends:

1. A newspaper advertisement for an Insurance Underwriter was placed in Charleston Newspapers for publication on May 19th and 26th. BRIM is expected to fill the position during the month of July 2013.

2. It is anticipated that the Loss Control Specialist position will be filled during June or July 2013.

3. A controller position was advertised due to Melody Duke, our current controller, transferring to the Finance Division of the Department of Administration. Melody has been with BRIM for 19 years.

G. An RFP for on-line defensive driver training is to be released in the near future. Tentative implementation for on-line defensive driver training is scheduled to begin January 1, 2014 for all BOEs. State agencies will participate in the summer 2014.

H. Upcoming renewals:

1. AIG Liability Program
2. Board of Education Excess Liability Program
3. Property Program
4. Aviation

I. COOP; Shooter Training

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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Chief Financial Officer's Report
May 28, 2013

A. P-Card Report

CD copies contain the supporting detail for P-card purchases for the months of January, February and March, 2013. These totals are:

January	$70,760.87
February	$41,031.09
March	$37,729.65

B. Financial Report

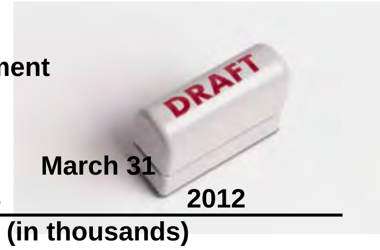
- The financial results presented are for the nine months ended March 31, 2013 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of March 31, 2013.
- Lower premium revenue in both years reflects the returns provided to insureds through lower premiums as a result of reductions realized in prior fiscal years reserve provisions.
- Operating results for the nine months of FY'13 reflect the impact of bolstering claims reserves by $8.3 million during the current fiscal year vs. a $7.4 million increase for the same period last year. The reserve additions increased claims expenses for both years. Additionally, property claims payments are up in 2013, primarily as a result of the "derecho" wind event that occurred on June 29, 2012.
- The effect of reserve increases in combination with the lower premiums billed are the primary reasons for the net operating losses shown for both years.
- The Fed's expected support of a low interest rate environment through 2014 continues to reduce the yields on U.S. Treasuries and other government-backed securities. However, the equity markets continue to support BRIM's overall returns for the current fiscal year.

C. FY'14 Premiums

- The rates for both the State and SB3 programs for FY'14 have been completed. Overall, the average FY'14 premium rates will be up about 6% vs. FY'13. The increase mirrors the overall increase seen in the actuarial losses projected for the year. It should be noted, however, that both FY'13 and FY'14 rates include significant reductions in the overall premiums billed. The lower premiums for both years are the result of savings being returned to the insured entities for favorable prior years' reserve development trends.

C. AIG/Chartis Update

- The Wall Street Journal reported on May 6, 2013 that "S&P bumped the long-term counterparty credit rating and financial-strength rating of the AIG PC Group, until recently known as Chartis Group, to A-plus from A. It cited "the successful restructuring that the AIG has undertaken during the past two years" and has made "significant investments" in the unit to improve its operations."



West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	March 31	
	2013	**2012**
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 19,749	$ 22,156
Advance Deposit with Carrier/Trustee	208,806	204,192
Receivables - Net	1,465	1,111
Prepaid Insurance	1,463	1,385
Total Short Term Assets	231,483	228,844
Long Term Assets		
Investments	141,545	138,794
Total Long Term Assets	141,545	138,794
TOTAL ASSETS	373,028	367,638
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,754	1,983
Claims Payable	200	392
OPEB Liability	374	182
Agents Commissions Payable	770	880
Unearned Revenue	5,737	6,649
Current Estimated Claim Reserve	50,751	49,438
Total Short Term Liabilities	59,586	59,524
Long Term Liabilities		
Compensated Absences	67	75
Estimated Noncurrent Claim Reserve	94,502	84,157
Total Long Term Liabilities	94,569	84,232
TOTAL LIABILITIES	154,155	143,756
Prior Year Net Assets		
Restricted - HB601 and Mine Subsidence	45,599	43,061
Unrestricted	175,916	176,767
Total Prior Year Net Assets	221,515	219,828
Current Year Earnings (Deficiency)		
Restricted - HB601 and Mine Subsidence	4,126	2,543
Unrestricted	(6,768)	1,511
Total Current Year Earnings (Deficiency)	(2,642)	4,054
Total Net Assets		
Restricted - HB601 and Mine Subsidence	49,725	45,604
Unrestricted	169,148	178,278
TOTAL NET ASSETS	218,873	223,882
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 373,028	$ 367,638

DRAFT - Unaudited - Management Purposes Only

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

	March 31 2013		March 31 2012
	(in thousands)		
Operating Revenues			
Premium Revenues	$ 36,473	$	38,624
Less - Excess Insurance	(4,369)		(4,088)
Total Operating Revenues	32,104		34,536
Operating Expenses			
Claims Expense	39,428		35,283
Property & MS Claims Expense	4,960		3,443
Personal Services	972		1,043
General & Administrative Expense	1,709		1,852
Total Operating Expenses	47,069		41,621
Operating Income (Loss)	(14,965)		(7,085)
Nonoperating Revenues			
Investment Income	12,323		11,139
Total Nonoperating Revenues	12,323		11,139
Net Income (Loss)	$ (2,642)	$	4,054

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
March 31, 2013
(in thousands)

	Total State	Total SB3	Mine Subsidence *(Restricted)*	BRIM HB 601 *(Restricted)*	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 7,549	$ 5,048	$ 1,742	$ 5,410	$ 19,749
Advance Deposit with Carrier/Trustee	105,220	103,586	-	-	$ 208,806
Receivables - Net	761	332	372	-	$ 1,465
Prepaid Insurance	756	707	-	-	$ 1,463
Total Short Term Assets	114,286	109,673	2,114	5,410	231,483
Long Term Assets					
Investments	68,851	28,788	43,906	-	141,545
Total Long Term Assets	68,851	28,788	43,906	-	141,545
Total Assets	$ 183,137	$ 138,461	$ 46,020	$ 5,410	$ 373,028
Liabilities					
Short Term Liabilities					
Accounts payable	784	933	37	-	1,754
Claims Payable	115	85	-	-	200
OPEB Liability	180	180	14	-	374
Agents Commissions Payable	-	770	-	-	770
Unearned Revenue	-	5,032	705	-	5,737
Current Estimated Claim Reserve	28,270	21,658	823	-	50,751
Total Short Term Liabilities	29,349	28,658	1,579	-	59,586
Long Term Liabilities					
Compensated Absences	32	32	3	-	67
Estimated Noncurrent Claim Reserve	60,504	33,875	123	-	94,502
Total Long Term Liabilities	60,536	33,907	126	-	94,569
Total Liabilities	89,885	62,565	1,705	-	154,155
Prior Year Net Assets	95,020	80,896	40,214	5,385	221,515
Current Year Earnings (Deficiency)	(1,768)	(5,000)	4,101	25	(2,642)
Total Net Assets	93,252	75,896	44,315	5,410	218,873
Total Liabilities and Retained Earnings	$ 183,137	$ 138,461	$ 46,020	$ 5,410	$ 373,028

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the nine months ending March 31, 2013
(in thousands)

	Total State	**Total SB3**	**Mine Subsidence** *(Restricted)*	**BRIM HB 601** *(Restricted)*	**Total**
Operating Revenues					
Premium Revenues	$ 19,305	$ 15,330	$ 1,808	$ 30	$ 36,473
Less: Excess Insurance	$ (1,969)	$ (2,400)	$ -	$ -	$ (4,369)
Total Operating Revenues	$ 17,336	$ 12,930	$ 1,808	$ 30	$ 32,104
Operating Expenses					
Claims Expense	22,139	17,080	209	-	39,428
Property & MS Claims Expense	2,400	2,208	343	9	4,960
Personal Services	516	402	54	-	972
General and Administrative Expense	456	1,227	24	2	1,709
Total Operating Expenses	25,511	20,917	630	11	47,069
Operating Income (Loss)	(8,175)	(7,987)	1,178	19	(14,965)
Nonoperating Revenues					
Investment Income	6,407	2,987	2,923	6	12,323
Total Nonoperating Revenue	6,407	2,987	2,923	6	12,323
Net Income (Loss)	$ (1,768)	$ (5,000)	$ 4,101	$ 25	$ (2,642)
	0.6692	1.8925	-1.5522	-0.0095	

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

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Earl Ray Tomblin
Governor

Charles E. Jones, Jr.
Executive Director

Ross Taylor
Cabinet Secretary

Loss Control Report to the Board
May 2013

We recently sent our annual Loss Control Questionnaires to all state agencies. The deadline for submission to BRIM is August 1, 2013. The information gathered will be used to calculate loss control credits and surcharges for fiscal year 2015.

BRIM and Hartford Steam Boiler jointly sponsored two boiler safety and operational seminars on May 7th and 8th. There were 158 participants, from throughout West Virginia, who took part in one or the other of the seminars which were held in different parts of the state. We continue to see a good turnout at these seminars and strive to improve them and keep them interesting to keep folks coming back each year.

We have once again advertised to address our vacant technical openings in the Loss Control Department. We would like to fill at least one of these positions as soon as possible. You may recall that we sought and interviewed applicants this past winter; however, we did not identify a suitable candidate.

BRIM participated in the West Virginia Regional Jail and Correctional Facility Authority's annual administrators' conference in Chester, West Virginia. Jeremy Wolfe was a member of AIG's panel that discussed risk management techniques for mitigation of excessive use of force and sexual misconduct claims brought by individuals in custody.

We recently announced an on-line defensive driver training initiative for calendar year 2014 to our County Boards of Education. We also plan to include state agencies in this initiative as well. This round of training will require all employees who drive an insured or a personal vehicle on entity related business to complete an on-line defensive driving course. Credits and surcharges will be applied based on the level of participation. Once we gather needed driver information, we plan to issue an RFP for these services. We anticipate that the training will not exceed two hours in length.

During the months of March, April and May, Aon conducted 144 inspections and Hartford conducted 765. The reports are being processed according to established procedures.

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

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

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.

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

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

269 Senate bill #3 Standards of evaluations were completed during the month of March 2013.

Dated: 5/24/2013

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

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AGENDA

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

February 26, 2013

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes December 4, 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
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 26, 2013

BOARD MEMBERS:	John R. Lukens, Esquire, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member Rob Anderson, 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 Robert Berry, Underwriter John Fernatt, IT Manager Melody Duke, Controller Stephen M. Fowler, Esq., BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Bob Ayers, Wells Fargo Insurance Services Brenda Samples, Wells Fargo Insurance Services Charles Waugh, Chartis Joanne Valleau, Chartis
GUESTS:	Mike Gansor, WVU Risk Management Ed Phillips, WVU Health Sciences Center Travis Bailey, Marshall University Tracy Smith, Marshall University Janet Buckley, Commercial Insurance Morgana Vigneron, 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 1:09 p.m. on Tuesday, February 26, 2013, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the December 4, 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 the only issue of legislation he has seen to date is the bill on mine subsidence, which calls for an increase in coverage from $75,000 per structure to $125,000.

Mr. Fisher thereafter commented that there were two other issues facing legislative action: one deals with medical coverage being extended to physicians who volunteer at sports games, for example, as a team physician and they're not receiving any compensation.

Continuing, Mr. Jones also mentioned that there was a study being conducted regarding injury to the head —the fact that there were a lot of concussions happening to kids who participate in high school sports. The legislature was concerned with physicians coming out of the stands or being on the sidelines administering aid to someone who may or may not have a concussion, as it relates to an athletic event.

In addition, Mr. Jones also noted that Cabinet Secretary Taylor recently made budget presentations to the Senate Finance and House Finance Committees in which he explained the history of the Patient Injury Compensation Fund, how it is managed, and the possible repercussions since several claims have been made, which would seriously jeopardize the fiscal stability of the fund. In short, Mr. Jones would recommend that additional monies be deposited into the fund. Currently, there are five open PICF claims with a balance of $3.7 million in the PICF.

Mr. Jones briefly mentioned the wvOASIS, which will enable several systems to be integrated into one, and stated that testing will begin in May 2013 with Budget Development.

The new underwriter, Robert Berry, was introduced to the Board by Jerry Gladwell, noting that Mr. Berry was with Nationwide for 18 years.

Continuing with his report, Mr. Jones gave an update regarding the BRIM Privacy Project, noting how critical it is to monitor and protect Personally Identifiable Information (PII) and Protected Health Information (PHI).

After Mr. Jones explained the policies up for renewal, he called upon Chuck Mozingo and John Fernatt, BRIM's DOA COOP representatives, to give an update on the Continuity of Operations (COOP) project to the Board. During his presentation regarding last year's storm, Mr. Mozingo stated that out of the 93 customer-presented claims, 54 had been settled and that 39 were still open. He stated that by the end of this year, BRIM should be down to just a handful of claims remaining.

With regard to the Active Shooter Program, Mr. Mozingo noted that it takes a combined effort on the part of state agency personnel and local law enforcement agencies to effectively combat this situation.

There being no questions, Mr. Jones asked Mr. Schumacher to present the Chief Financial Officer's Report. The unaudited balance sheet as of December 31, 2012 and the unaudited income statement for the six months ending December 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 October, November, and December 2012 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the July, August, and September 2012 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

. During a brief discussion, Mr. Cunningham moved that the Board accept the corrected audit report into the minutes as a matter of public record. (It was found necessary to do this because of an error made by Ernst & Young in the original audit report submitted at the December 4, 2012 BRIM Board Meeting.) Vice Chairman Martin seconded the motion. There being no discussion, a vote was taken and the MOTION ADOPTED.

NEW BUSINESS

Mr. Cunningham strongly noted his concern with the time—that is, lack of time, for the Board to receive and study the audit, actuarial, and two investment reports prior to the meeting in which the reports are formally presented for acceptance. He feels these reports should be given to the Board members at least a week in advance of the meeting so they can read and study them and ask any appropriate questions. In addition, he suggested the possibility of having separate meetings in which to present the reports.

Chairman Lukens noted his agreement with Mr. Cunningham and thereafter appointed Vice Chairman Martin and Mr. Cunningham to study the information and to report back to the Board at the next meeting, giving their recommendations as to some of the steps BRIM might take in light of the information presented. Vice Chairman Martin and Mr. Cunningham indicated their acceptance of the task.

ADJOURNMENT

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

Board Vice Chairman	Date

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Executive Director's Report

February 26, 2013

A. Marshall University and West Virginia University Medical Malpractice Program

- As of February 22, 2013, Marshall has deposited $7,814,808.33 into the escrow account. The year-to-date cumulative interest totals $124,061.64. There have been eight disbursements totaling $1,653,353.14 during fiscal year 2013 thus far.

- As of February 22, 2013, a total of $19,696,190.32 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $128,823.75. There have been nine disbursements totaling $3,974,113.12 during fiscal year 2013 thus far.

B. State Agency/Senate Bill #3 Litigation

Litigation results: In 2012, we tried six cases, with five defense verdicts and one plaintiff verdict. So far in 2013, we have tried two cases, with one to a defense verdict, and the second to a plaintiff verdict.

C. Legislative Issues

1. Mine subsidence proposed legislation

2. Department of Administration (DOA) Senate Budget presentation.

Department of Administration Cabinet Secretary Ross Taylor presented to the Senate Finance Committee the upcoming budget for the Department of Administration, which includes BRIM and 16 other agencies. Contained in the DOA budget proposal was the expiration from BRIM of $8,000,000 from the Premium Tax Savings Fund. We do not expect the expiration of these funds to have a fiscal impact on BRIM. There were no inquiries of BRIM from the Senate Finance Committee.

3. Department of Administration House Budget presentation.

   Cabinet Secretary Taylor presented a similar budget presentation to the House Finance Committee. There was a timely inquiry about the financial stability of the Patient Injury Compensation Fund (PICF). I responded giving a brief history of how the PICF was formed. Since the formation of the PICF in 2004, up until about six months ago, we have had only four claims filed. The initial capitalization was $4,914,412.01 and interest earned through August 2012 was $530,935.09.

   Three of the four claims filed resulted in expenditures from the fund of $1,633,176.36. One claim was denied. The remaining balance of $3,773,565.73 is available for future claims.

   Over the last six months, we have received five new claims, which remain open and seriously jeopardize the fiscal stability of the PICF. This was communicated to the House Finance Committee.

D. wvOASIS Enterprise Readiness Program

This project is comprised of five phases:

1. Budget Development
2. Department of Transportation – Safety, Right of Way, Utility, Transportation Asset Inventory
3. Core Finance and Procurement
4. Human Resources and Payroll
5. Remaining Transportation, Facilities and Real Estate

According to the timelines, Phase 1, Budget Development, will begin testing in May 2013.

This new system will enable several systems to be integrated into one. The budget process also becomes electronic.

E. Personnel Issues

1. Effective February 1st, Robert J. Berry was hired for the underwriting position previously held by Blaine Nelson. Mr. Berry came to us from The Cincinnati Insurance Companies, where he spent about 18 months. Prior to that, he held various positions at Nationwide Insurance over an 18-year span.

2. The interview process for two Loss Control Specialists is almost complete, and we hope to have these positions filled very soon.

F. BRIM Privacy Project

Over the last three years, BRIM has partnered with the WV Privacy Office in providing an incentive to state agencies to improve security of Personally Identifiable Information (PII) and Protected Health Information (PHI) to lessen the likelihood that a breach will occur and put PII and PHI at risk of being compromised. The WV Privacy Office helped develop criteria that state agencies who collect PII and PHI certify they have taken steps to encrypt collected information and limit access to said information, thereby reducing our exposure to a loss. Those agencies who participated in the certification process received a credit towards their FY 2014 premium with a maximum of $10,000. There were 80 agencies that participated and 87 that did not.

G. Upcoming renewals:

1. AIG Liability Program
2. Board of Education Excess Liability Program
3. Property Program
4. Aviation

H. COOP; June 29, 2012 Storm Update; PODS; Active Workplace Violence Awareness

I. Congratulations to Robert Fisher

Robert is now the proud grandfather of Bryson Levi, born January 2nd at 1:06 p.m., to Brittany Fisher. Bryson weighed 8 pounds, 3 ounces, and was 20 inches long.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

STATE OF WEST VIRGINIA
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Chief Financial Officer's Report
February 26, 2013

A. P Card Report

CD copies contain the supporting detail for "P" card purchases for the months of October, November and December, 2012. These totals are:

October	$35,642.50
November	$23,228.01
December	$52,934.51

B. Financial Report

- The financial results presented are for the six months ended December 31, 2012 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of December 31, 2012.
- Lower premium revenue in both years reflects the returns provided to insureds through lower premiums as a result of reductions realized in prior fiscal years reserve provisions.
- Operating results for the six months of FY'13 reflect the impact of bolstering claims reserves by $6.1 million during the current fiscal year vs. a $4.9 million increase for the same period last year. The reserve additions increase claims expenses.
- The effect of reserve increases in combination with the lower premiums is the primary reasons for the net operating losses shown for both years.
- The Fed's decision to extend support of a low interest rate environment through 2014 continues to reduce the yields on U.S. Treasuries and other government backed securities. However, equity markets continue to bolster BRIM's overall returns for the current fiscal year.

C. AIG/Chartis Update

- On February 21, 2013, American International Group Inc. (AIG) reported a $4.0 billion net loss for the fourth-quarter of 2012, including a $4.4 billion net loss on sale from discontinued operations (International Lease Finance Corporation). This compares with net income of $21.5 billion in the prior year quarter. The fourth-quarter financial report marks the first time since 2008 that AIG operated without a substantial investment from the U.S. Treasury Department.
- AIG Property Casualty (formerly Chartis) reported an operating loss of $945 million in the fourth quarter of 2012, which included $2.0 billion of catastrophe losses from Storm Sandy, compared to operating income of $367 million in the fourth quarter of 2011. Full year net operating income was $1,820 million in 2012 vs. $1,218 million in 2011.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	December 31 2012	December 31 2011
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 21,152	$ 21,626
Advance Deposit with Carrier/Trustee	206,215	200,843
Receivables - Net	1,472	1,181
Prepaid Insurance	2,919	2,748
Total Short Term Assets	231,758	226,398
Long Term Assets		
Investments	138,140	133,193
Total Long Term Assets	138,140	133,193
TOTAL ASSETS	369,898	359,591
LIABILITIES		
Short Term Liabilities		
Accounts payable	1,485	1,538
Claims Payable	39	115
OPEB Liability	374	182
Agents Commissions Payable	513	587
Unearned Revenue	5,912	6,781
Current Estimated Claim Reserve	48,718	46,820
Total Short Term Liabilities	57,041	56,023
Long Term Liabilities		
Compensated Absences	67	75
Estimated Noncurrent Claim Reserve	94,371	84,350
Total Long Term Liabilities	94,438	84,425
TOTAL LIABILITIES	151,479	140,448
Prior Year Net Assets	221,515	219,828
Current Year Earnings (Deficiency)	(3,096)	(685)
TOTAL NET ASSETS	218,419	219,143
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 369,898	$ 359,591

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

	December 31 2012	December 31 2011
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 24,409	$ 25,915
Less - Excess Insurance	(2,912)	(2,725)
Total Operating Revenues	21,497	23,190
Operating Expenses		
Claims Expense	28,689	25,859
Property & MS Claims Expense	2,335	2,282
Personal Services	656	714
General & Administrative Expense	1,217	1,271
Total Operating Expenses	32,897	30,126
Operating Income (Loss)	(11,400)	(6,936)
Nonoperating Revenues		
Investment Income	8,304	6,251
Total Nonoperating Revenues	8,304	6,251
Net Income (Loss)	$ (3,096)	$ (685)

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

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 5,476	$ 3,864	$ 6,412	$ 5,400	$ 21,152
Advance Deposit with Carrier/Trustee	100,403	105,812	-	-	$ 206,215
Receivables - Net	934	166	372	-	$ 1,472
Prepaid Insurance	1,506	1,413	-	-	$ 2,919
Total Short Term Assets	108,319	111,255	6,784	5,400	231,758
Long Term Assets					
Investments	72,224	28,039	37,877	-	138,140
Total Long Term Assets	72,224	28,039	37,877	-	138,140
Total Assets	$ 180,543	$ 139,294	$ 44,661	$ 5,400	$ 369,898
Liabilities					
Short Term Liabilities					
Accounts payable	563	827	95	-	1,485
Claims Payable	16	23	-	-	39
OPEB Liability	180	180	14	-	374
Agents Commissions Payable	-	513	-	-	513
Unearned Revenue	-	5,207	705	-	5,912
Current Estimated Claim Reserve	26,181	21,725	812	-	48,718
Total Short Term Liabilities	26,940	28,475	1,626	-	57,041
Long Term Liabilities					
Compensated Absences	32	32	3	-	67
Estimated Noncurrent Claim Reserve	60,270	33,979	122	-	94,371
Total Long Term Liabilities	60,302	34,011	125	-	94,438
Total Liabilities	87,242	62,486	1,751	-	151,479
Prior Year Net Assets	95,020	80,896	40,214	5,385	221,515
Current Year Earnings (Deficiency)	(1,719)	(4,088)	2,696	15	(3,096)
Total Net Assets	93,301	76,808	42,910	5,400	218,419
Total Liabilities and Retained Earnings	$ 180,543	$ 139,294	$ 44,661	$ 5,400	$ 369,898

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

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 12,957	$ 10,109	$ 1,323	$ 20	$ 24,409
Less: Excess Insurance	$ (1,219)	$ (1,693)	$ -	$ -	$ (2,912)
Total Operating Revenues	$ 11,738	$ 8,416	$ 1,323	$ 20	$ 21,497
Operating Expenses					
Claims Expense	15,928	12,564	197	-	28,689
Property & MS Claims Expense	1,184	874	268	9	2,335
Personal Services	349	269	38	-	656
General and Administrative Expense	346	855	16	-	1,217
Total Operating Expenses	17,807	14,562	519	9	32,897
Operating Income (Loss)	(6,069)	(6,146)	804	11	(11,400)
Nonoperating Revenues					
Investment Income	4,350	2,058	1,892	4	8,304
Total Nonoperating Revenue	4,350	2,058	1,892	4	8,304
Net Income (Loss)	$ (1,719)	$ (4,088)	$ 2,696	$ 15	$ (3,096)

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

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Governor

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Ross Taylor
Cabinet Secretary

LOSS CONTROL REPORT TO THE BOARD
FEBRUARY 2013

The Senate Bill #3 loss control questionnaires were due on January 1, 2013. Since then, we have been evaluating those questionnaires to apply credits 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 489 evaluations.

We are currently conducting employment interviews in hopes of filling the two vacant Loss Control Specialist positions. We would like to complete the hiring process for these positions in the spring of this year if possible. The positions have been vacant for quite some time.

The medical malpractice risk management loss prevention consulting services contract has been successfully implemented and initial meetings are being conducted with the affected insured entities.

The West Virginia Regional Jail and Correctional Facilities Authority has asked for our help with the risk management training needs for their safety officers who are located in each of the regional jails. We are developing a training program which we hope to present in the coming year.

We are continuing our partnership with the Division of Personnel with regard to a class entitled "*Workplace Safety: Your Responsibility*". We participate by making a live presentation during each class. 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 December, January and February, Aon conducted 140 inspections and Hartford conducted 1,000. The reports are being processed according to established procedures.

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

5 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.

5 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.

2 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.

Dated: 2-25-2013

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

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

December 4, 2012

Chairman Lukens	Call to Order
Chairman Lukens	Introduction of New Board Member Rob Anderson (HEPC)
Chairman Lukens	Approval of Board Minutes August 28, 2012

REPORTS

Charles E. Jones, Jr. Executive Director	Executive Director's Report
Susan Wheeler, Ernst & Young	June 30, 2012 Audited Financial Report
Jo Ellen Cockley, AON Risk Consultants	June 30, 2012 Actuarial Report
Scott Mountain 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
Jeremy Wolfe Loss Control 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**

December 4, 2012

BOARD MEMBERS:	John R. Lukens, Esquire, Chairman Bruce R. Martin, CIC, CRM, Vice Chairman Sherry Cunningham, CPA, Member Rob Anderson, Ex-Officio Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Stephen W. Schumacher, CPA, CFO Jeremy Wolfe, Loss Control Manager Chuck Mozingo, Assistant Claim Manager Jerry Gladwell, Underwriting Manager Carl Baldwin, Deputy Loss Control Manager John Fernatt, IT Manager Melody Duke, Controller Steve Fowler, BRIM Counsel Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry “Skip” Morris, Wells Fargo Insurance Services Brenda Samples, Wells Fargo Insurance Services Charles Waugh, AIG Project and Casualty
GUESTS:	JoEllen Cockley, AON Susan Wheeler, Ernst & Young Scott C. Mountain, Standish Mellon Asset Management Brian Carrico, MU School of Medicine Tracy Smith, Marshall University Sandy Price, WVU Health Sciences Michael J. 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, December 4, 2012, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

INTRODUCTION OF NEW BOARD MEMB ER

Chairman Lukens began the meeting by introducing Rob Anderson, Executive Vice Chancellor for Administration of the West Virginia Higher Education Policy Commission, and by noting some of the highlights of his career contained in his . biography.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the August 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 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 summarized the topics in his report. He briefly discussed the request for information regarding the Risk Management Information Systems (RMIS), which is a unified data system that will meet all RMIS insurance-related needs. He stated there have been approximately fourteen interviews held with prospective vendors, and the final vendor selection is still pending.

Mr. Jones further stated that the contract for the Medical Malpractice Risk Management Loss Prevention Consulting Services was awarded to the West Virginia

Mutual Insurance Company, which had the highest technical score and was the lowest bidder. It goes into effect on January 1, 2013.

Vice Chairman Martin interjected for the record that he is a member of the Board of the West Virginia Mutual Insurance Company but does not feel there is a conflict of interest.

Mr. Jones noted that the cost of damages from the June 29th storm, including damages to both State Agency and Senate Bill #3 properties, was approximately $3.7 million. He then revealed a potential problem—although BRIM offers contract coverage, several of the agencies, cities and towns, filed for assistance with FEMA as well. Our position is that we should not pay for a claim that is going to be paid also by FEMA, and afterwards possibly risk some kind of subrogation coming back against the agency, so we really tried our best to work with FEMA and the agencies so that there would not be a duplication of payments. Currently, BRIM has a shortage of personnel in the areas of Loss Control and Underwriting. We are hopeful that the vacancies in the Loss Control Department will be filled within the next 60 days, and that those in the Underwriting Department will be filled within the next month.

Mr. Jones further stated that at the request of the House Education Subcommittee, he appeared to discuss liability coverage for volunteer physicians and athletic trainers at athletic events, and advised that these physicians and trainers are, in fact, covered while acting within the scope of their duties.

In closing, Mr. Jones noted that BRIM had received a Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2011. This is the 17th year BRIM has received this award from the Government Finance Officers Association (GFOA).

There being no questions for Mr. Jones, Chairman Lukens recognized 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, 2012. (The report entitled “West Virginia Board of Risk and Insurance Management, 2012 audit results and communications” had been previously distributed to the Board members.)

Referring to the audit results document, Ms. Wheeler summarized the contents of pages 5 through 10, which explain what E & Y has agreed to do, the areas of audit emphasis, and the “required communication” topics, which are communicated to the Board of Directors. E & Y issued an unqualified opinion (highest rating possible) on BRIM’s basic financial statements as of and for the year ended June 30, 2012. Its report on internal control over financial reporting disclosed no instances of noncompliance. E & Y was not aware of any significant accounting policies used by BRIM that were considered to be controversial. Significant estimates by management relating to the estimation of the claims reserve were evaluated and considered reasonable.

Mrs. Wheeler noted that they are not aware of any matters that required communication, and there were no material weaknesses identified as a result of their audits with BRIM.

In addition, Ms. Wheeler further stated that in the coming weeks, BRIM’s Comprehensive Annual Financial Report for 2012 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 particularly noted that there were no unrecorded audit differences for the 2012 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 A.

There being no questions for Ms. Wheeler, Chairman Lukens then called upon Mrs. JoEllen Cockley of AON, BRIM's actuary, to give her presentation. (For the convenience of the Board, a copy of the Risk Funding Study as of June 30, 2012 was previously distributed for their reference.) Mrs.Cockley noted that if any of the Board members has questions about the numbers they wish to discuss, they should feel free to inquire.

During her presentation, Mrs. Cockley referred to the Risk Funding Study and the trends by line in the marketplace, the worldwide natural disasters, 1980 – 2012 in the marketplace; the property rate trends, and the MedMal combined ratio vs. All Lines Combined Ratio in the Marketplace 1991 – 2012.

With regard to loss activity, Mrs. Cockley noted that the total program fiscal calendar year incurred losses totaling $49 million, $14 million higher than FY 10-11; the total paid loss activity, $38 million, approximately $1 million less than the previous fiscal year paid loss activity.

Mrs. Cockley thereafter reviewed the activity for the State Spending Units (SSUs) and Senate Bill # 3 entities (SB 3) in the General Liability, Property, Medical Malpractice, and Automobile lines of business. Overall, unpaid loss estimates increased seven percent between June 30, 2011 and June 30, 2012, and four percent between June 30, 2012 and September 30, 2012.

In closing, Mrs. Cockley stated that performance during FY ‘12 was slightly worse than expected, and that the primary focus for FY ‘13 is to monitor loss emergence to see if paid loss emergence deteriorates as open claims are resolved.

There being no questions for Mrs. Cockley, Chairman Lukens then called upon Scott Mountain of Standish Mellon Asset Management, a wholly-owned subsidiary of the Bank of New York Mellon, to present BRIM’s portfolio performance for funds held in trust with the Bank of New York Mellon and to give the economic outlook. (For the convenience of the Board, printed copies of the presentation for “The State of West Virginia BRIM dated December 4, 2012” were previously distributed to the Board.)

During Mr. Mountain’s presentation, he noted that Standish feels there should be a certain amount of caution in the market, but they do feel there is too much negativity pressed into the fixed income market. Their forecast for GDP is at 1.4% for 2013 versus a market consensus of 2.1%. He explained that one of the factors pushing down this number is the U.S. businesses. With the inability of Congress to pass a budget measure, there’s a lack of business investment. Investors are uncertain as to how they are supposed to prepare for this. The uncertainty makes them reluctant to invest and spend a lot of money.

Mr. Mountain thereafter explained that Standish believes that the fiscal cliff will reduce growth in 2013 because of the following: 1) expiration of payroll tax reduction; 2) taxes in the Affordable Care Act, and 3) other changes in revenue and spending.

Upon the conclusion of Mr. Mountain’s presentation, Vice Chairman Martin announced that Chairman Lukens had to leave and that he would be continuing with the proceedings. (Chairman Lukens exited the meeting at 2:12 p.m.)

There being no questions for Mr. Mountain, Vice Chairman Martin recognized Tom Sauvageot of the Investment Management Board, who briefly explained the Asset Allocation, Asset Class Performance, and Performance sections in the investments handout previously distributed to the Board.

During this discussion, Mr. Sauvageot reminded the Board that BRIM's monies held by the Investment Management Board are invested as a custom allocation specifically designed for BRIM, and that the long-term portfolio does show some equity exposure,

There being no questions, Mr. Schumacher thereafter presented the Chief Financial Officer's Report. The unaudited balance sheet as of September 30, 2012 and the unaudited income statement for the three months ending September 30, 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 July, August and September 2012 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the April, May and June billings. The acknowledgement form is retained by the Finance Department.

During further discussion, Mr. Schumacher noted that with reserves going up and the investment returns being held down, BRIM will more than likely have an overall net loss for the fiscal year.

Thereafter, Mr. Wolfe, Loss Control Manager, began the Loss Control Report by announcing the promotion of Carl Baldwin to the position of Deputy Loss Control Manager. He noted that BRIM is also advertising in the hopes of filling the two vacant loss control technical positions in the near future.

Mr. Wolfe thereafter informed the Board that the contract for medical malpractice risk management loss prevention consulting services had been awarded to the West Virginia Mutual Insurance Company. He concluded the report by presenting the statistics for the various types of visits conducted.

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

At this point, Vice Chairman Martin stated that the Board needed to vote on whether to accept the reports of the auditor, actuary and investment manager previously presented. Accordingly, Mr. Cunningham thereafter moved the acceptance of the reports as presented, and that they be attached and made a part of the minutes. The motion was seconded by Mr. Anderson. There being no further discussion, a vote was taken and the MOTION ADOPTED.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:45 p.m.

Board Chairman	Date

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

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Executive Director's Report

December 4, 2012

A. Marshall University and West Virginia University Medical Malpractice Program

- As of November 30, 2012, Marshall has deposited $7,814,808.33 into the escrow account. The year-to-date cumulative interest totals $123,597.54. There have been five disbursements totaling $278,108.32 during fiscal year 2013 thus far.

- As of November 30, 2012, a total of $17,584,998.61 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $127,873.95. There have been six disbursements totaling $1,861,836.08 during fiscal year 2013 thus far.

B. State Agency/Senate Bill #3 Litigation

Through November 2012, five cases have been tried to a verdict. We have obtained three defense verdicts and two plaintiff verdicts. With regard to the plaintiff verdicts, there was one verdict in which the jury awarded no damages. The other was a pure plaintiff verdict in which damages were awarded.

New lawsuits year-to-date 2012 have increased 26.9% over year-to-date 2011. Closed lawsuits have decreased 31%, and pending lawsuits have increased 10.7%.

C. Request for Information/Request for Proposal Update

1. Request for Information – Risk Management Information Systems (RMIS)
We have held approximately 14 interviews with prospective RMIS vendors. The interviews were conducted either in person or through webinars and conference calls. Our interest is in purchasing a unified data system that will meet all RMIS insurance-related needs including Finance, Underwriting, Loss Control and Claims.

2. Medical Malpractice Risk Management Loss Prevention Consulting Services RFP# 080112

   In August 2012, we initiated an RFP process to select a consulting partner to assist our major institutions in providing educational seminars and risk surveys in the area of medical Professional Liability coverage. In selecting the vendor to provide the consulting services, we enlisted the assistance of each of the Risk Managers from West Virginia University and Marshall University.

   Key deliverable objectives:

   a. Assist BRIM insured in identifying medical malpractice risks and/or exposures and provide industry accepted recommendations for mitigation of such risks.

   b. Conduct a claim analysis and provide industry accepted specific loss prevention strategies and methods, including risk management programs and policies, to assist BRIM insured in mitigating medical professional liability claims.

   c. Provide medical professional liability educational resources.

   d. Write post meeting summary reports offering improvements toward managing medical professional liability risk/exposures.

   After an exhaustive review process, the successful proposal of the five submissions that were received was submitted by the West Virginia Mutual Insurance Company, which had the highest technical score and was the lowest bidder.

D. Storm Damage - June 29, 2012

   We initially estimated that damage from the June 29 storm approximated $3.7 million. That included damages to both State Agency properties and to Senate Bill #3 properties, which were fairly evenly split. Affected agencies applied to the federal government for disaster relief as well as to BRIM.

E. Miscellaneous

   1. Loss Control Department and Underwriting Department Vacancies - Currently, in each department there are two vacancies, totaling four for the agency. We are already interviewing potential candidates for the Underwriting Department. Our goal is to fill those two underwriter vacancies within the next month. We hope to fill the vacancies in the Loss Control Department within the next 60 days.

   2. During the November Legislative Interims, at the request of the House Education Subcommittee A, I appeared to discuss liability coverage provided by BRIM to volunteer physicians and athletic trainers while acting within the scope of their duties at athletic events. The subcommittee is studying injury to student athletes,

more specifically concussion type injuries that occur during athletic sporting events. The query came as a result of determining whether coverage is afforded to volunteer physicians and athletic trainers who render aid during athletic events. BRIM does provide coverage to volunteer physicians and athletic trainers under those circumstances.

3. Through BRIM, the Real Estate Division of the Department of Administration filed as plaintiff an action against the Clerk of the Kanawha County Commission, et al., as a result of the illegal sale of state property for alleged delinquent property taxes to a third party. Most recently, plaintiff's motion for Summary Judgment was filed in support of this position. A hearing has not been scheduled yet.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

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Chief Financial Officer's Report
December 4, 2012

A. P Card Report

CD copies contain the supporting detail for "P" card purchases for the months of July, August and September, 2012. These totals are:

July	$66,573.28
August	$40,720.63
September	$72,438.99

B. Financial Report

- The financial results presented are for the quarter ended September 30, 2012 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's risk funding study as of September 30, 2012.
- Operating results for the first three months of FY'13 reflect the impact of bolstering claims reserves by $5.5 million during the current quarter vs. a $4.5 million increase for the same quarter last year. 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 extend support of a low interest rate environment through 2014 continues to reduce the yields on U.S. Treasuries and other government backed securities. Concerns over Europe's debt crisis and the U.S. "fiscal cliff" continue to weigh on both the bond and equity markets. Lower average yields and the uncertainty in the markets have dampened investment earnings for the current quarter.

C. AIG/Chartis Update

- On September 10th, the Treasury announced that it had sold additional AIG stock for about $20.7 billion, further reducing the government's ownership in AIG from 53% down to 16%. This makes the fifth time that the Treasury has sold AIG stock. The decision of the government to reduce its stake so drastically prompted Standard & Poor's to change the outlook on the AIG holding company to negative from stable. "We are no longer giving credit for government support in the holding-company rating," S&P officials say.
- On November 2, 2012, American International Group Inc. (AIG) reported that the third-quarter swung to a profit of $1.86 billion, driven by improvements in nearly every aspect of its business. This compares with a $4.1 billion loss for the third quarter last year that was driven by declines in equity markets, widening credit spreads and lower interest rates.
- AIG's property and casualty business, Chartis saw operating profit rise 60% to $786 million before taxes compared to $442 million for the same quarter a year ago as catastrophe costs fell by about half to $261 million. Chartis also took a $145 million charge in the current quarter to boost reserves for policies it sold in prior years. As of November 11, 2012 Chartis was rebranded as AIG.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	September 30 2012		September 30 2011	
	(in thousands)			
ASSETS				
Short Term Assets				
Cash and Equivalents	$	25,042	$	23,801
Advance Deposit with Carrier/Trustee		207,100		198,283
Receivables - Net		1,449		954
Prepaid Insurance		3,209		3,071
Total Short Term Assets		236,800		226,109
Long Term Assets				
Investments		135,891		129,769
Total Long Term Assets		135,891		129,769
TOTAL ASSETS		372,691		355,878
LIABILITIES				
Short Term Liabilities				
Accounts payable		1,107		1,154
Claims Payable		589		124
OPEB Liability		374		182
Agents Commissions Payable		257		325
Unearned Revenue		5,887		6,794
Current Estimated Claim Reserve		49,463		46,638
Total Short Term Liabilities		57,677		55,217
Long Term Liabilities				
Compensated Absences		67		75
Estimated Noncurrent Claim Reserve		93,015		84,064
Total Long Term Liabilities		93,082		84,139
TOTAL LIABILITIES		150,759		139,356
Prior Year Net Assets		221,515		219,828
Current Year Earnings		417		(3,306)
TOTAL NET ASSETS		221,932		216,522
TOTAL LIABILITIES AND RETAINED EARNINGS	$	372,691	$	355,878

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

	September 30 2012	September 30 2011
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 12,328	$ 13,125
Less - Excess Insurance	(1,456)	(1,363)
Total Operating Revenues	10,872	11,762
Operating Expenses		
Claims Expense	14,200	13,827
Property & MS Claims Expense	1,216	1,499
Personal Services	335	367
General & Administrative Expense	554	652
Total Operating Expenses	16,305	16,345
Operating Income (Loss)	(5,433)	(4,583)
Nonoperating Revenues		
Investment Income	5,890	1,277
Total Nonoperating Revenues	5,850	1,277
Net Income (Loss)	$ 417	$ (3,306)

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET
September 30, 2012
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Assets					
Short Term Assets					
Cash and Equivalents	$ 7,347	$ 6,455	$ 5,847	$ 5,393	$ 25,042
Advance Deposit with Carrier/Trustee	102,637	104,463	-	-	$ 207,100
Receivables - Net	958	119	372	-	$ 1,449
Prepaid Insurance	1,359	1,850	-	-	$ 3,209
Total Short Term Assets	112,301	112,887	6,219	5,393	236,800
Long Term Assets					
Investments	71,048	27,583	37,260	-	135,891
Total Long Term Assets	71,048	27,583	37,260	-	135,891
Total Assets	$ 183,349	$ 140,470	$ 43,479	$ 5,393	$ 372,691
Liabilities					
Short Term Liabilities					
Accounts payable	278	770	56	3	1,107
Claims Payable	473	116	-	-	589
OPEB Liability	180	180	14	-	374
Agents Commissions Payable	-	257	-	-	257
Unearned Revenue	-	5,182	705	-	5,887
Current Estimated Claim Reserve	27,546	21,132	785	-	49,463
Total Short Term Liabilities	28,477	27,637	1,560	3	57,677
Long Term Liabilities					
Compensated Absences	32	32	3	-	67
Estimated Noncurrent Claim Reserve	59,845	33,053	117	-	93,015
Total Long Term Liabilities	59,877	33,085	120	-	93,082
Total Liabilities	88,354	60,722	1,680	3	150,759
Prior Year Net Assets	95,020	80,896	40,214	5,385	221,515
Current Year Earnings (Deficiency)	(25)	(1,148)	1,585	5	417
Total Net Assets	94,995	79,748	41,799	5,390	221,932
Total Liabilities and Retained Earnings	$ 183,349	$ 140,470	$ 43,479	$ 5,393	$ 372,691

West Virginia Board of Risk and Insurance Management
Unaudited Income Statement
for the three months ending September 30, 2012
(in thousands)

	Total State	Total SB3	Mine Subsidence	BRIM HB 601	Total
Operating Revenues					
Premium Revenues	$ 6,606	$ 5,017	$ 695	$ 10	$ 12,328
Less: Excess Insurance	$ (740)	$ (716)	$ -	$ -	$ (1,456)
Total Operating Revenues	$ 5,866	$ 4,301	$ 695	$ 10	$ 10,872
Operating Expenses					
Claims Expense	8,055	5,979	166	-	14,200
Property & MS Claims Expense	583	437	189	7	1,216
Personal Services	178	137	20	-	335
General and Administrative Expense	149	397	8	-	554
Total Operating Expenses	8,965	6,950	383	7	16,305
Operating Income (Loss)	(3,099)	(2,649)	312	3	(5,433)
Nonoperating Revenues					
Investment Income	3,074	1,501	1,273	2	5,850
Total Nonoperating Revenue	3,074	1,501	1,273	2	5,850
Net Income (Loss)	$ (25)	$ (1,148)	$ 1,585	$ 5	$ 417

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
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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
DECEMBER 2012

Carl Baldwin was recently promoted to the position of Deputy Loss Control Manager. Carl has excelled during his time here at BRIM and his professional knowledge will be a vital asset as we begin to reconstruct the Loss Control Department. We congratulate him on his promotion. We are publishing an ad seeking qualified applicants in hopes of filling the two vacant technical positions within the Department. Carl's expertise will prove to be very valuable as we hire and train the new people.

Carl assisted the Kanawha-Putnam Emergency Planning Committee in the planning and execution of Shelter-In-Place Emergency Drills for Putnam County Board of Education during the month of September.

In October, we sent out loss control questionnaires to our Senate Bill #3 insured. The completed questionnaires and supporting documentation are due to BRIM on January 1, 2013.

Due to the widespread damage and disruption brought about by Super-storm Sandy, we had to cancel our annual boiler and safety operational seminars which were scheduled for October 31 and November 1. The seminars will be rescheduled in the spring of next year.

We awarded a medical malpractice risk management loss prevention consulting services contract to the West Virginia Mutual Insurance Company. This contract will be a one year contract with an option for two additional years. There was a great deal of interest in this RFP; a total of five different vendors submitted proposals.

During the months of September, October and November Aon conducted 122 inspections and Hartford conducted 272. The reports are being processed according to established procedures.

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

8 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.

19 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.

1 Presentation Visits

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

3 Continuing Education Visits

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

Dated: 12-3-2012

Respectfully submitted,

Robert A. Fisher

Robert A. Fisher
Deputy Director and Claim Manager

State of West Virginia
Board of Risk and Insurance Management

Risk Funding Study as of June 30, 2012

Presented on December 4, 2012

Jo Ellen Cockley, FCAS, MAAA
Associate Director & Actuary
jo.ellen.cockley@aon.com
610-834-2274

AON

National Underwriting Trends by Line

Domestic Marketplace – Calendar Year

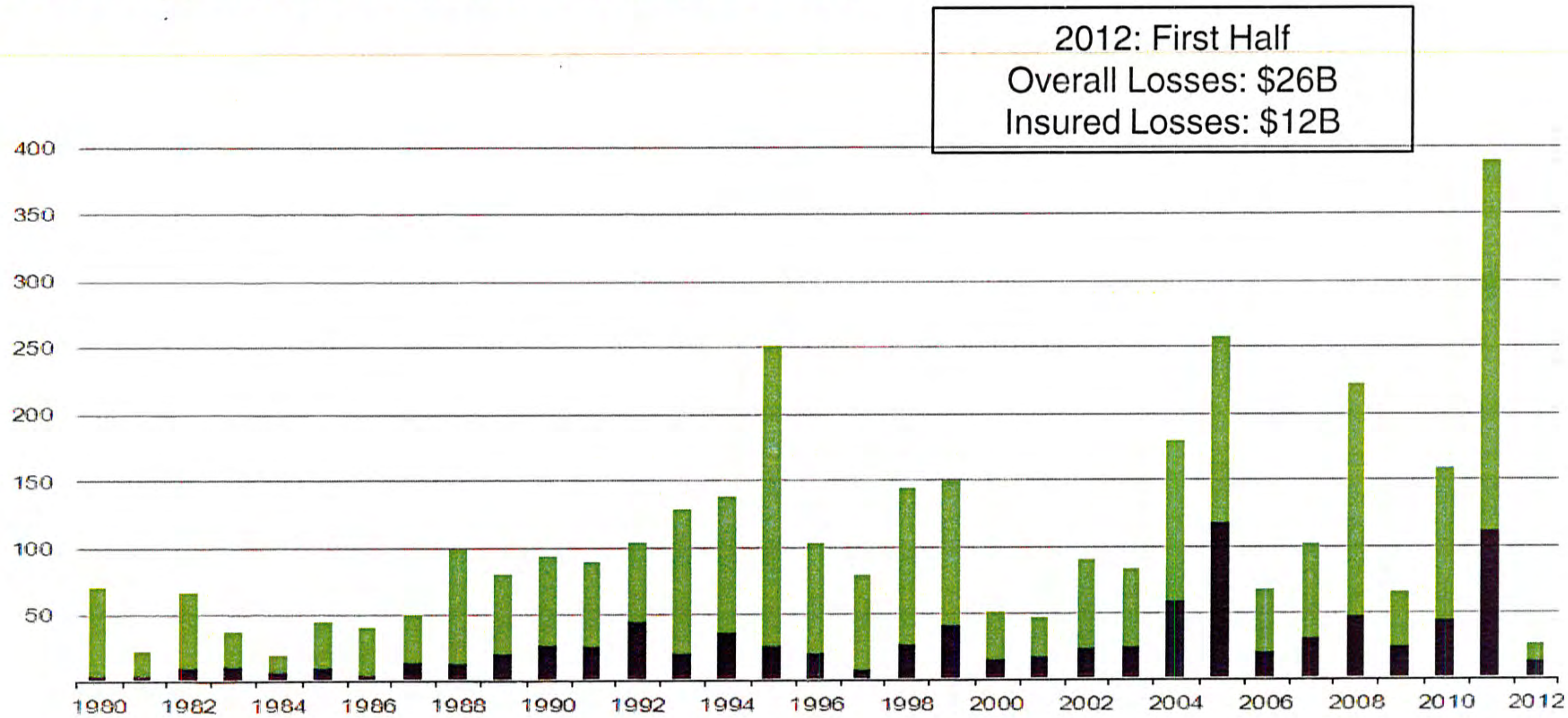
Combined Ratio

	Actual										Estimated	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012P
Personal Auto	107.9	104.2	98.4	94.4	95.1	95.5	98.3	100.3	101.3	101.0	100.8	100.3
Homeowners	121.7	109.2	98.3	94.2	100.1	89.4	95.7	116.9	105.8	106.7	123.7	105.0
Workers' Compensation	120.7	112.6	108.5	105.2	102.7	98.4	103.5	104.5	110.6	116.8	118.5	120.5
General & Products Liability	130.6	137.4	115.9	117.4	113.1	95.3	99.0	95.1	105.4	109.8	105.1	106.6
Commercial Package	118.7	104.9	99.9	100.6	97.1	93.0	92.1	104.1	97.0	100.2	117.1	102.1
Commercial Auto	116.2	102.7	95.1	92.9	92.1	92.4	94.3	96.8	99.4	98.0	102.6	102.1
Fire & Allied Lines	123.8	89.2	79.6	86.8	104.1	79.7	69.9	99.3	80.0	82.5	103.2	88.2
Medical Malpractice	154.4	142.4	137.5	111.0	101.0	91.3	84.3	77.4	83.4	80.6	87.0	92.0
Overall Ratio for All Lines	115.7	107.3	100.1	98.9	101.2	92.5	94.8	101.2	99.5	101.0	107.5	102.0

Source: A.M. Best: Special Report – Property Casualty Review/Preview – February 6, 2012

Marketplace

Worldwide Natural Disasters, 1980–2012:H1 Overall and Insured Losses

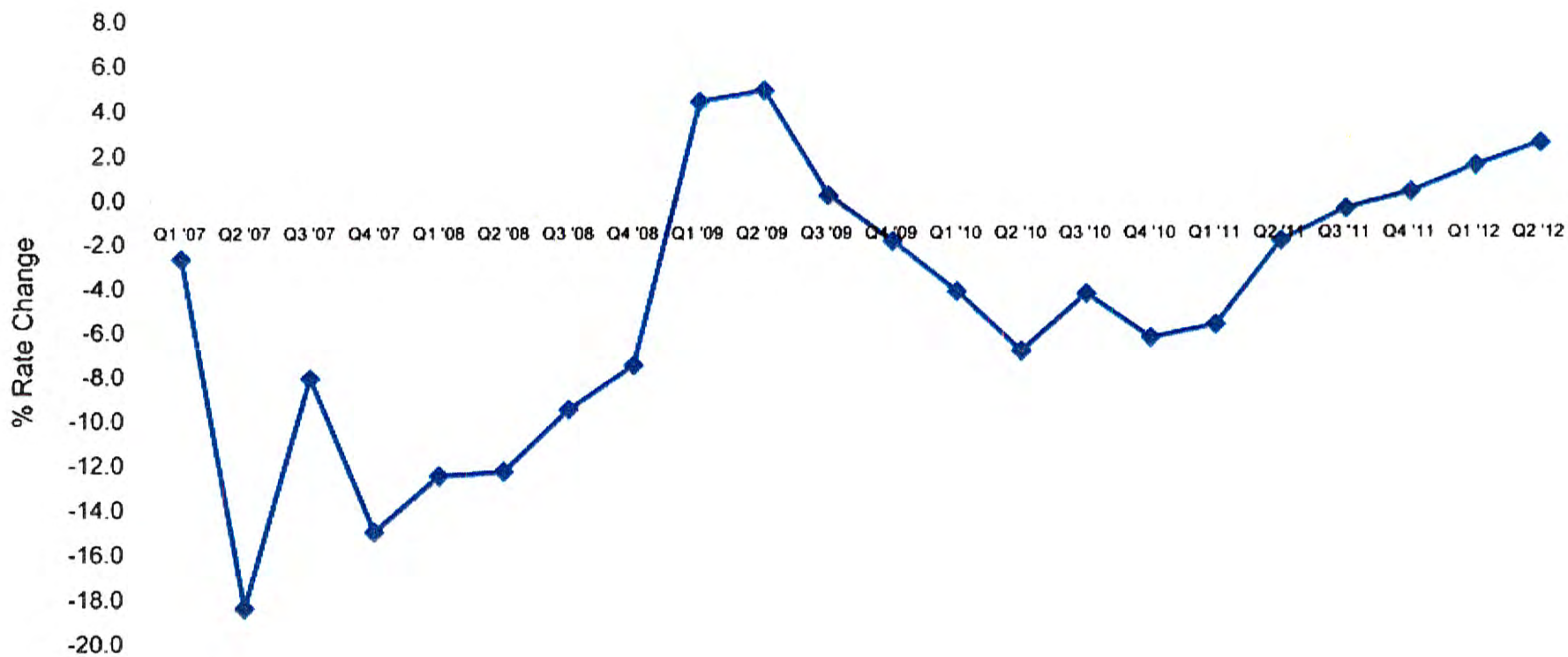


Source: MR NatCat*SERVICE*

Marketplace

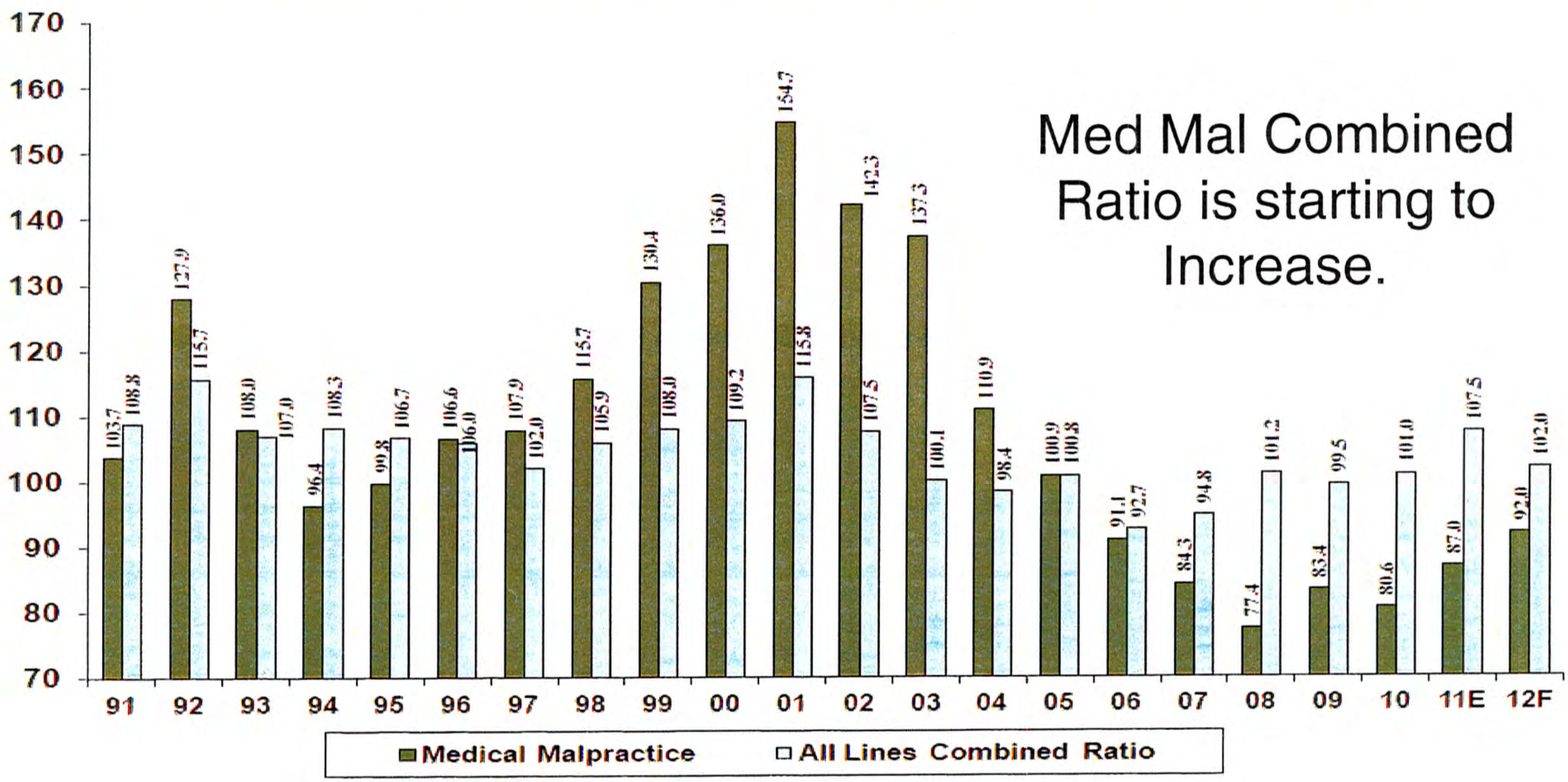
Property Rate Trends

Source: Aon Data



Marketplace

Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991–2012F



Source: AM Best, Insurance Information Institu

Marketplace

Aon 2012 Hospital Professional Benchmark Study

- New Wave of State Legislation
  - ➢ Massachusetts, New Hampshire, Oregon and Florida
  - ➢ New Legislative efforts focused on:
    - Patient Safety
    - Fair Access to Compensation
    - Cost Reduction and Efficiency Improvements

- *Goal of changing the patient / provider relationship and the culture of medical malpractice liability*

Marketplace

Aon 2012 Hospital Professional Benchmark Study

- Frequency trends continue at 1% per year

- Severity trends decreased from 4.0% to 2.5% per year

- West Virginia Loss Cost slightly higher than Countrywide
  - Lower severity <u>but</u>
  - Higher frequency

- Continued Physician and Hospital Integration
  - Correlated risks

Market Outlook for 2013

- Surplus still at high levels – $570 billion at June 30, 2012
- Industry claims paying capacity very strong
  - 1974 $1 of surplus for every $2.70 in premium
  - 2011 $1 of surplus for every $0.78 in premium
- Improving economic conditions will help premium growth

BUT

- Combined ratios are now on an upward trend
- Investment returns remain very low
- Insurer profitability continues its decline
- High catastrophe insured property losses in 2nd half of 2012
- Expect rate strengthening for certain lines; property, workers compensation, personal lines
- Liability lines to remain soft

Loss Emergence

- Total Program fiscal calendar year incurred loss activity was $49 million
  - about $14 million higher than FY10/11 incurred loss activity
  - highest amount of incurred activity in the last 5 years
  - increase largely due to case (adjuster) reserve increases
- Total Program fiscal calendar year paid loss activity was $38 million
  - about $1 million less than FY 10/11 paid loss activity
  - lowest amount of paid activity since FY07/08
  - <u>but</u> may increase in the future due to the increased case reserves

Unpaid Loss Estimates

- Unpaid Loss = Ultimate Loss – Paid Loss
- Unpaid Loss = Case Reserves + IBNR
- Increased $10 million (or 7%) since 6/30/2011
  - Mostly attributable to General Liability and Property

Line of Business Results

General Liability

State Spending Units

- Fiscal year incurred loss activity has been increasing since 09/10
- Unfavorable incurred loss emergence though as expected paid loss emergence
- Ultimate loss estimates increased $1.7 million
  - – $1.6 million in FAY 10/11
- Unpaid loss estimates increased $6.1 million
  - – $4.6 million from increased case reserves in FAY 09/10 & 10/11
  - – $1.5 million from increased IBNR estimates due to recent loss activity and exposure growth

General Liability

Senate Bill #3

- Higher level of incurred loss activity but within long term averages
- Actual loss emergence was favorable
- Still watching FAY10/11 due to high level of reported claim counts
- Little change to ultimate loss or unpaid loss estimates

Property

- El Derecho Windstorm Loss occurred on 6/29/2012
  - No case reserves as of 6/30/2012
  - IBNR set equal to the $1,000,000 per occurrence retention
  - As of 9/30/2012, incurred loss equals $4.1 million and paid loss equals $0.3 million
  - The loss is about evenly split between SSU and SB3

Property

State Spending Units

- Unfavorable loss activity during FY 11/12 due in large part to increase in reported flood losses
- Flood loss (3/15/12) incurred loss equals $0.6 million
- Retained unpaid loss is $4.3 million
  - Increased $3.0 million since 6/30/2011

Senate Bill #3

- Favorable loss activity during FY 11/12
- Retained unpaid loss is $2.8 million
  - Increased $1.3 million since 6/30/2011

Medical Malpractice

- SSU had unfavorable incurred and paid loss activity during the fiscal year.
- FAY 09/10 & 11/12 ultimate loss estimates increased $1.8 million but was offset by decreases in other FAYs
- Little change in unpaid loss estimates
- SSU non-zero claim frequency has increased noticeably FY07/08 and subsequent.
- The loss activity in the WVU/Marshall deductible layer was $6.6 million (paid) and $8.2 million (incurred).
  - Deductible layer is beginning to mature
- Senate Bill #3 entities continue to have little loss activity.

Automobile

- Auto performed better than expected on both a paid loss and incurred loss basis.
  - SB3 Auto outperformed SSU Auto

- Ultimate loss estimates decreased by $3.3 million

- Unpaid loss estimates unchanged since 6/30/2011
  - SB3 Auto had a slight decrease offset by a slight increase in SSU Auto

Other Exposures

- Mine Subsidence continues to run at a favorable loss ratio (average = 25% over the past 9 years).
- The non-novated portion of the HB 601 program had no open claims as of June 30, 2012. The IBNR provision remains zero.
- There are no pending claims against the PICF though 2 loss notices were filed in July 2012.
- The unpaid loss estimate is $0 as of June 30, 2012 based on the "claims filed" nature of the fund.
- The PICF has paid about $1.7 million since its inception and about $0.3 million during FY 11/12.
- The fund balance is about $3.8 million.

September Update

- Overall, unpaid loss estimates increased $10 million or 7% between June 30, 2011 and June 30, 2012.
- Unpaid loss estimates increased $5.4 million or 4.0% between June 30, 2012 and September 30, 2012.

September Update

Line of Business	Entity	Retained Unpaid at 9/30/2012	Retained Unpaid at 6/30/2012	Dollar Change	Percent Change
Automobile Liability	SSU	7,180,885	6,992,454	188,430	2.7%
Automobile Liability	SB3	11,227,862	9,739,390	1,488,472	15.3%
General Liability	SSU	56,245,140	54,955,525	1,289,615	2.3%
General Liability	SB3	39,174,660	36,967,308	2,207,351	6.0%
Property	SSU	4,062,269	4,323,739	(261,471)	-6.0%
Property	SB3	2,141,441	2,783,068	(641,627)	-23.1%
Medical Malpractice	SSU	19,037,924	17,878,583	1,159,341	6.5%
Medical Malpractice	SB3	1,104,155	1,260,727	(156,572)	-12.4%
Mine Subsidence		851,370	694,683	156,687	22.6%
Total		141,025,705	135,595,478	5,430,227	4.0%

FY12/13 Loss Forecasts

- Exposure levels are
  - Up by about 3.4% in Auto
  - Down by 1.5% in General Liability
- Losses are discounted at 4% (no change)
- SB3 forecasts for each coverage decreased
- SSU Forecasts
  - Are unchanged for Auto & Liability
  - Higher by $0.5 million (or 22%) for Property
  - Higher by $0.3 million (or 7%) for Med Mal

Conclusion

- Slightly worse than expected performance during FY11/12
  - Incurred loss activity higher than expected driven primarily by case reserve increases
  - Paid loss activity better than expected
  - Major Property events
  - No decrease in medical malpractice unpaid loss estimates

- Areas of primary focus for FY12/13:
  - Monitor loss emergence to see if paid loss emergence starts to deteriorate as open claims are resolved.

Questions?

West Virginia Board of Risk and Insurance Management

2012 audit results and communications

December 4, 2012

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

December 4, 2012

Dear Members of the Board of Directors and Management,

We are pleased to present the results of our audit of the 2012 financial statements of the West Virginia Board of Risk and Insurance Management (BRIM).

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

The audits were designed to express an opinion on the 2012 financial statements. We considered, and will continue to consider, BRIM's current and emerging needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audits 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.

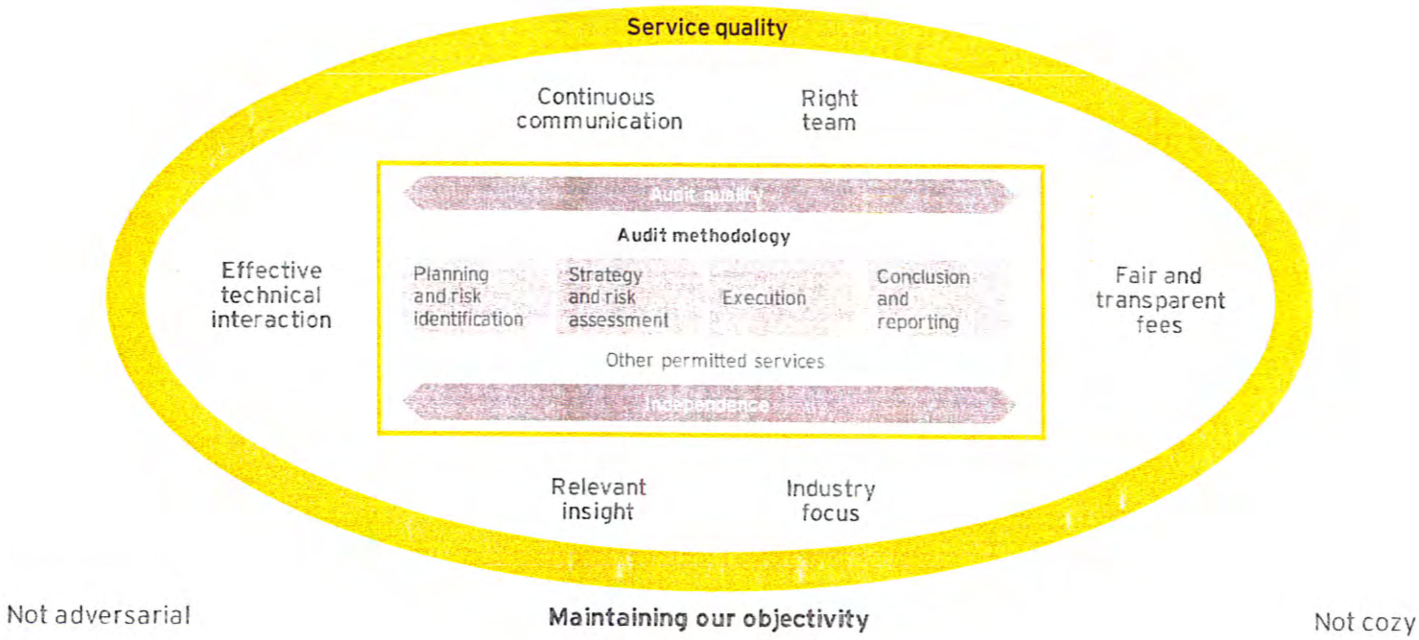
Very truly yours,

Susan Wheeler

Susan P. Wheeler
Partner

Agenda

Our client service commitment



Our service commitment	Ernst & Young is committed to delivering consistent high-quality client service to the West Virginia Board of Risk and Insurance Management (BRIM). 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 BRIM is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Overview of our audit methodology process

Audit quality

Audit methodology

Planning and risk identification	Strategy and risk assessment	Execution	Conclusion and reporting

Other permitted services

Independence

Important planning matters for the Board of Director's 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.
- 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* for BRIM.

Areas of audit emphasis

The principal areas of audit emphasis were as follows:

- Unpaid claims and claims adjustment expense liability and related expense accounts.
- Premiums receivable and related premium revenue.
- 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 (the Board) that may assist the Board in overseeing management's financial reporting and disclosure process. Below we summarize these communications.

Area	Comments
Auditors' responsibilities under generally accepted auditing standards (GAAS) The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature, timing and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.	We issued an unqualified opinion on BRIM's basic financial statements as of and for the year ended June 30, 2012. As part of obtaining reasonable assurance about whether BRIM's financial statements were free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Additionally, as part of our audit, we obtained a sufficient understanding of internal controls to plan our audit and determine the nature, timing, and extent of testing performed and not to provide assurance on internal control over financial reporting. We issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.
Overview of planned scope and timing	We discussed the planned scope and timing with Stephen Schumacher, CFO.

Required communications

Area	Comments
Other information in documents containing audited financial statements AICPA AU Section 550 establishes the auditor's responsibility for other information prepared by management that accompanies the audited financial statements. If the Company includes other information in documents containing audited financial statements, we review such other information and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited financial statements. If we conclude that a material inconsistency exists, we determine whether the financial statements, our auditor's report, or, both require revision. In addition, we notify you if we conclude that there is a material misstatement of fact in the other information.	BRIM has presented supplementary information, including management's discussion and analysis and the supplemental schedule of Ten-Year Claims Development Information with its financial statements required by Governmental Accounting Standards Board Statement No. 30. BRIM also presented other financial information requested by the State of West Virginia (the State). This other financial information is not a required part of the financial statements but is presented for purposes of additional analyses. Such information has been subjected to the auditing procedures applied in our audit of the basic 2012 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2012 financial statements taken as a whole.
Our views about the qualitative aspects of BRIM'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 principle ▸ Financial statement disclosures and related matters	We have considered management's critical accounting policies and practices in our audit of the basic financial statements and related footnotes including: ▸ Cash and cash equivalents ▸ Investments and related income ▸ Premiums revenue and unearned revenue ▸ Claims reserve, including incurred but not reported, and the related expense accounts ▸ Advance deposits We evaluate the quality, not just the acceptability, of accounting principles selected by management, the consistency of the 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. There were no new accounting pronouncements which were required to be adopted during fiscal year 2012.

Required communications

Area	Comments
Our views about the qualitative aspects of BRIM's significant accounting practices including: ▸ The effect of significant accounting policies in controversial or emerging areas	We are not aware of any significant accounting policies used by BRIM related to controversial or emerging areas for which there is a lack of authoritative guidance.
Our views about the qualitative aspects of BRIM's significant accounting practices including: ▸ Significant accounting estimates	Significant estimates made by management relate to the estimation of the claims reserve. Management utilizes an external consulting actuary to assist with the estimation process. Management believes the estimate for unpaid claims and claims adjustment expense is reasonable. However, because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing estimates of claims liability does not necessarily result in an exact amount, particularly for coverage 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. Significant estimates used by management were evaluated and considered to be reasonable in all material respects.
Significant difficulties encountered in dealing with management when performing the audit	None.
Uncorrected misstatements	None.
Material corrected misstatements	None.
Reportable disagreements with management	None.
Representations we are requesting from management	See Appendix A.
Management's consultation with other accountants	None of which we are aware.

Required communications

Area	Comments
Significant issues, if any, arising from the audit that were discussed, or the subject to correspondence with management	None.
Independence matters	1. We are not aware of any relationships between Ernst & Young and BRIM that, in our professional judgment, may reasonably be thought to bear on our independence. 2. Relating to our audit of the financial statements of BRIM as of June 30, 2012, and for the year then ended, we are independent certified public accountants with respect to BRIM within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings, and the requirements of *Government Auditing Standards*. Our policies relating to financial interests (e.g., stock ownership, loans and other credit) generally are stricter than the requirements imposed by these regulatory and professional bodies.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	We are not aware of any matters that require communication.
Significant deficiencies and material weaknesses in internal control	There were no material weaknesses identified as a result of our audits of BRIM.
Other findings or issues regarding the oversight of the financial reporting process We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their 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.
All material alternative accounting treatments discussed with management	None.
Major issues discussed with management in connection with initial or recurring retention	None.

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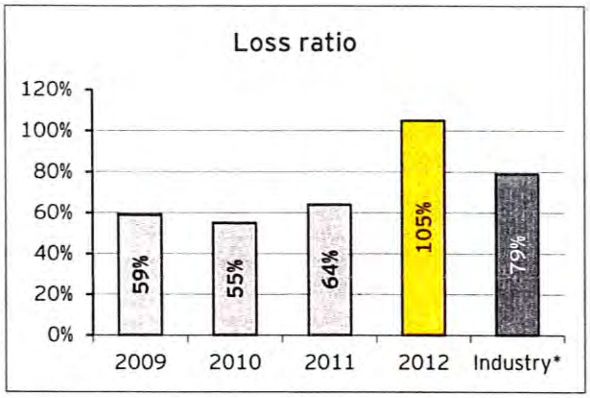
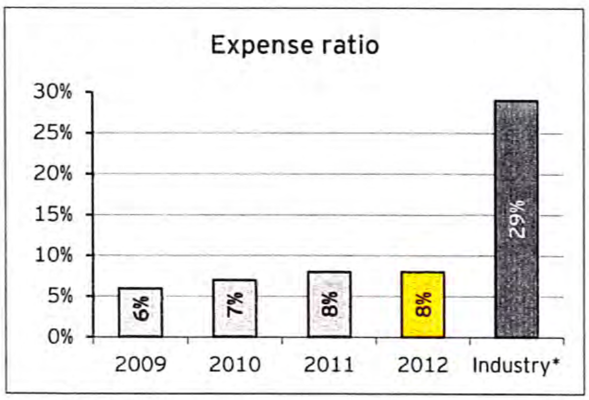
Industry analysis

Ratio comparison



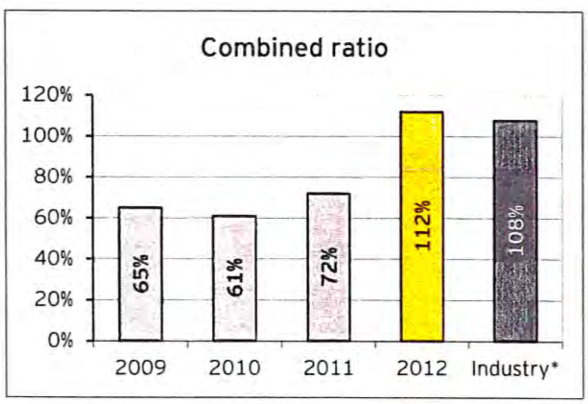
The loss ratio measures claims cost experience. It is derived by dividing claims and claims adjustment expenses by earned premiums. This ratio can soar during a period of heavy catastrophe losses.

The 2012 loss ratio has increased since the prior year due to both an increase in expenses ($19.8 million) and a drop in premiums ($1.5 million). The deterioration in the ratio is due to an unanticipated increase in State general liability claims (primarily 2011 and 2010 reserves) and from a couple of large property loss occurrences that adversely impacted both the State and Senate Bill #3 programs in 2012. Premium revenue remained relatively flat from 2011.



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 2012 expense ratio has remained 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 increased significantly in 2012 due to the loss ratio factor discussed above.

**Industry data obtained from Standard & Poor's Industry Surveys, Insurance: Property/Casualty, September 20, 2012.*

Industry trends

Source: Standard & Poor's Industry Surveys, Insurance: Property/Casualty, September 20, 2012

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 with other financial institutions. Although the industry continues to grapple with downward pressure on demand from the continuing weakness (or only tepid recoveries) in most economies around the world, there does appear to be an upswing taking place in the premium pricing cycle, with rates for most lines of coverage firming.

Underwriting results in 2011 were hurt by significantly higher catastrophe losses, and industry after-tax profits plunged more than 45%. In 2010, underwriting results were relatively unchanged, as forecasts for an above-average catastrophe season that year never came to fruition (at least in the US). 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. Many of these trends changed in 2011. Record catastrophe and weather-related losses exerted downward pressure on underwriting margins, and low interest rates and equity market volatility pressured investment results.

Investment gains partially offset underwriting losses for insurers

After peaking in 2006, industry underwriting results and profitability declined in the next five 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.

Industry trends

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, while for 2010, insurers in the ISO study reported growth of 22.6% in net income to reach $35.2 billion. However, in 2011, net income dropped 45.7% to $19.1 billion. According to the ISO study, net written premiums grew 3.3% in 2011 to $437.6 billion. (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 41% of total industry written premiums) advanced 2.9%, year over year, in 2011. This group's business consists primarily of personal auto and homeowners' coverage, which is highly regulated and not prone to large 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. Following a 2.7% year-over-year drop in 2010, the commercial lines sector (which accounted for 35% of total industry written premiums) rebounded in 2011. This group reported a 4.34% year-over-year growth in written premiums in 2011, providing empirical support for anecdotal evidence that despite the highly competitive state of the commercial lines market and the challenges of excess underwriting capacity, the market is doing well to counter some of these issues.
- Balanced lines. Balanced lines underwriters, who write a combination of personal and commercial lines coverage, accounted for the remaining 24% of total industry written premiums. This group posted a 2.4% year-over-year rise in 2011.

Industry trends

Earned premiums for insurers in the ISO study grew 2.8% to $433.9 billion in 2011 from $422.1 billion in 2010. This growth, however, was modest compared 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, however, and earned premiums declined in 2008, 2009, and 2010.

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. During 2010 and 2011, investment results were mixed, as persistent low investment yields pressured investment income. 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. In 2011, the situation worsened as unrealized investment losses amounted to $5.1 billion, compared to unrealized investment gains of $16.0 billion in 2010, which itself was a significant decline from the gains of $23.1 billion in 2009. The net investment income for property-casualty insurers grew 3.0%, to nearly $49.0 billion in 2011, from $47.6 billion in 2010.

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 $5.8 billion. This contrasts rather sharply with the more than $7.9 billion of realized investment losses incurred by the industry in 2009. In 2011, realized gains grew 22.8% to reach $7.2 billion. However, unrealized gains, after plummeting rather sharply in 2010, turned to unrealized losses of $5.1 billion in 2011. (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 deteriorated further during 2011

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.

Industry trends

Insurers in the ISO survey reported deterioration in loss trends during 2011. Incurred losses increased 12.8% to $290.8 billion, from $257.7 billion in 2010, after a modest increase of 1.6% in 2010. Loss and loss adjustment expenses (the costs incurred in settling claims) inched up 1.4%, to $53.7 billion from $52.9 billion. Further, net losses on underwriting equaled 8.4% of earned premium in 2011, up from only 2.5% in 2010. The deterioration in underwriting results was largely due to a sharp increase in catastrophe losses, which totaled $33.6 billion for US insurers, up from $14.3 billion in 2010. Consequently, loss ratios for most property-based lines of coverage (homeowners, commercial multi-peril, fire) grew considerably in 2011. Pure loss ratios for all of the major property lines experienced a sharp rise in 2011, while they declined for most of the major casualty lines (the only exception was the medical malpractice line of coverage, where the pure loss ratio went up).

Combined ratio a key gauge of underwriting performance

The combined ratio is a key measure of underwriting performance. It is the sum of the loss ratio, the expense ratio, and (where applicable) the dividend ratio. A combined ratio under 100% indicates an underwriting profit, while one in excess of 100% means there is an underwriting loss. Insurers in the ISO study reported a combined ratio of 108.2% for 2011, a marked deterioration from 102.4% in 2010. (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.)

Underwriting results varied by type of insurer. Personal lines writers experienced the least deterioration in underwriting results, with their combined ratio going up to 106.0% in 2011 from 101.3% in 2010. Commercial lines underwriters also saw deterioration in underwriting results, with a combined ratio of 110.2% in 2011, compared with 104.9% in 2010. Hurting this group's results were a number of factors, including ongoing weakness in the mortgage and financial guaranty marketplace.

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 (%)
2012*	112,382	107,944	70.0	28.5	0.5	99.0
2011*	109,045	105,232	74.8	28.0	0.4	103.3
2011	437,604	433,941	79.4	28.4	0.4	108.2
2010	423,789	422,200	73.6	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

*Three months. ‡Incurred to premiums earned. †Incurred to premiums written.

Source: Insurance Services Office

Industry trends

When mortgage and financial guaranty results were excluded, commercial lines underwriting results were still modestly unprofitable, with a combined ratio of 104.9% in 2011, compared with 100.5% in 2010. 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, experienced the most dramatic deterioration in underwriting results in 2011, evidenced by their combined ratio of 109.0%, versus 100.6% in 2010.

- **Loss ratios.** For this representative group of insurers (accounting for approximately 96% of industry premium volume), loss ratios equaled 79.4% in 2011, compared with 73.6% in 2010. Again, these results reflected the combined impact of deteriorating personal lines and commercial lines claim trends. These results also included loss adjustment expenses (LAE). Personal lines insurers posted a loss ratio of 80.4% in 2011, versus 75.5% in 2010. Commercial lines insurers also reported a significant deterioration in their loss ratios during 2011, with a loss ratio of 79.1%, versus 74.2% in 2010. Balanced lines underwriters also experienced the highest level of deterioration in their loss ratios, which equaled 78.1% in 2011, compared with 69.4% in 2010.
- **Expense ratios.** Industry expense ratios inched up marginally during 2011, 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 equaled 25.2% at the end of 2011, compared with 25.1% in 2010. Commercial lines insurers saw the most dramatic rise in their expense ratios, to 30.7% in 2011, from 30.2% in 2010. However, the increase in the overall industry expense ratio was brought down by the decline in the balanced insurers' expense ratio to 30.6% in 2011, from 30.9% in 2010.
- **Dividend ratios.** Finally, the dividend ratio ended 2011 at 0.4%, down from 0.5% in 2010. Results did not differ materially among types of underwriters.

Industry trends

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, 2011, insurers in the ISO study reported a combined surplus of $550.3 billion, down 1.6% from $559.2 billion at December 31, 2010.

The 1.6% decrease 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)

			— THREE MOS. —	
ITEM	2010	2011	2011	2012
Policyholders' surplus—beg. of period	511.4	559.2	559.2	550.3
Operating income	38.2	14.8	8.6	11.8
Realized capital gains	6.6	7.2	1.0	0.7
Income taxes	5.9	(2.9)	(1.8)	(2.3)
Net after-tax income	35.2	19.2	7.8	10.1
Unrealized capital gains (loss)	16.0	(5.1)	3.9	13.7
Stockholder dividends & other	(31.4)	(25.7)	(5.7)	(6.5)
New funds	27.5	2.2	1.5	0.3
Misc. surplus change	0.6	0.6	(0.2)	2.7
Policyholders' surplus—end of period	559.2	550.3	566.5	570.7

Source: Insurance Services Office.

The ratio of net written premiums to surplus stood at 0.80-to-1 at year-end 2011. In other words, in the 12 months ended December 31, 2011, insurers wrote $0.80 worth of premiums for every $1 of surplus. If we assume a "typical" rate of leverage of 2-to-1 (which is what regulators usually allow), the industry had approximately $332 billion of "excess" surplus at December 31, 2011, according to our estimates, compared with our estimate of $346 billion at December 31, 2010.

Industry trends

We arrived at this conclusion by using the following 2011 data points: the $437.6 billion in net written premiums in the 12 months ended December 31, 2011, and policyholders' surplus of $550.3 billion at December 31, 2011. If we assume a 2-to-1 leverage ratio, the amount of surplus required to support the actual level of premium volume is approximately $218.8 billion ($437.6 billion divided by 2). The difference between actual surplus ($550.3 billion) and so-called required surplus ($218.8 billion) is $331.5 billion. Put another way, this excess surplus could theoretically support another $663.0 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, 2011, despite a yearly decline in the surplus, there still remained an enormous amount of excess capital in the insurance marketplace.

Worldwide catastrophe losses surge 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 $3.4 billion in the first quarter of 2012, down 48% from $6.6 billion in the year-ago period. In 2011, such losses amounted to $32.3 billion, up a considerable 129.5% from $14.3 billion in 2010. The losses in 2010 of $14.3 billion were 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.)

Many insurers with a presence outside the US also incurred losses from an array of storms. Worldwide, insured losses from catastrophes exceeded $105 billion in 2011, according to data obtained from the Insurance Information Institute (III), a research and trade association. This topped the previous record of $101 billion of worldwide insured losses set in 2005 (due mainly to Hurricane Katrina). Total economic losses from catastrophes topped $380 billion in 2011, well above the previous record of $220 billion set in 2005.

Industry trends

The costliest catastrophe in 2011 was Japan's earthquake and tsunami in March. Insured losses from that disaster are estimated to be $35 billion; total economic losses, which are still being tallied, could top $200 billion. The second costliest disaster occurred late in 2011 in Thailand. Severe flooding during the monsoon season in Thailand quickly escalated when several densely populated and commercial regions were affected. As of early 2012, the estimated insured losses from the Thai floods were some $15 billion. Another significant event occurred in February 2011 in Christchurch, New Zealand, where an earthquake caused $13 billion in insured losses.

According to the *Half-Year Financial Report 2012* released by Munich Re in August 2012, this year so far has witnessed a lower level of losses compared to the record year of 2011. The report states that the global economic losses caused by natural catastrophes through June 2012 totaled $26 billion, of which $12 billion were insured losses. Further, the US accounted for a significant 85% of the total insured worldwide losses, owing to a high number of tornadoes and wildfires in the year so far. According to a July 2012 report released by Aon Benfield, the reinsurance intermediary and consultant, losses associated with hailstorms in New Mexico and Texas are estimated to exceed $1 billion, while a storm in Wyoming and Colorado will generate losses worth more than $700 million. Another study states an estimate by reinsurance intermediary Guy Carpenter & Co. LLC, which pegs the total catastrophe claims absorbed by the insurers in the first six months of 2012 at $11 billion, against a much higher $76 billion in the same period last year.

According to a study on the catastrophe losses in 2011, published by Aon Benfield, total worldwide economic losses from natural catastrophes in 2011 were pegged at $435 billion. Aon Benfield estimated insured worldwide catastrophe losses to be around $107 billion, up from the estimated $38 billion in 2010. The significant difference between total economic losses and insured losses reflects the nature of 2011's catastrophes: many occurred in areas that were underinsured or uninsured. The most significant insured event in 2011 was the Japanese earthquake on March 11.

Industry trends

Hurricanes and tropical storms have historically comprised the majority of catastrophe losses. According to data obtained from the III, hurricanes and tropical storms comprised 45% of total catastrophe losses from 1990 to 2009. Tornadoes 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 2011 proved accurate, with 19 named storms, of which seven developed into hurricanes and three were classified as "major" (Category 3 or higher). Most significant was Hurricane Irene, which strengthened into a Category 3 hurricane on August 25, 2011. Irene cut a wide swath along the Eastern Seaboard of the United States and spawned at least eight tornadoes, leaving some 41 dead and causing $4.3 billion in insured damages.

The 2010 hurricane season also consisted of 19 named storms, of which 12 developed into hurricanes. 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 caused approximately $10.7 billion of insured losses (in 2008 dollars) and was the costliest of the season.

While the 2012 hurricane season so far has not been as "busy" as in 2011, there have been some changes in the forecast for the season. According to a revised hurricane season prediction issued by the National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center on August 9, 2012, the 2012 Atlantic hurricane season has seen a significant level of activity, with six named storms since the season began in June. Further, in the revised forecast, the organization said that there was a 35% chance for this season to be an "above-normal" season, compared with its prediction of 25% in May 2012. Further, it has decreased the odds for this season to be a "below-normal" season to 15% from the 25% predicted in May. According to the Center, wind patterns and warmer-than-average ocean temperatures are responsible for the upward revision. For the June 1–November 30 period, the NOAA now forecasts 12 to 17 named storms, including five to eight hurricanes, of which two to three could be major hurricanes. This compares with a 50-year annual average of 9.6 named storms and six hurricanes.

Industry trends

Recent catastrophes reopen debate over insurance protection in storm-prone areas

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, coverage in a number of coastal areas difficult is to obtain, and most homeowners' policies don't cover most catastrophe-related damages. (Flood damage to vehicles, though, is typically covered under a comprehensive automobile insurance policy.)

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.

The frequent flooding of the Mississippi River in the 1960s gave rise to the creation of the National Flood Insurance Program (NFIP), a taxpayer-funded disaster relief program. The NFIP has three components: providing residential and commercial insurance coverage for flood damage; improving floodplain management; and developing maps of flood hazard zones.

In the aftermath of the 2005 hurricane season and the widespread flooding caused by Hurricane Katrina, 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.

Industry trends

The urgency to reopen this debate increased in 2011, following heavy flooding along the Mississippi River and in the Northeast in the spring, and in the aftermath of Hurricane Irene in late summer. Many 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 threatened government shutdown in late 2011.

The most concrete resolution was the extension of the National Flood Insurance Program (NFIP) through May 3, 2012. Then, on May 31, the program was further extended until July 31. Although a long-term alternative to this program has yet to materialize, several initiatives did emerge in both houses of Congress. In May 2012, both the House and Senate introduced legislation that would extend the NFIP through 2016.

On July 12, 2011, the House passed the Flood Insurance Reform Act of 2011 (H.R. 1309), which aims to reduce the rate subsidies the NFIP must pay and make the flood insurance program "actuarially sound." The bill would also require the Controller General and the Federal Emergency Management Agency (FEMA) to conduct studies on the privatization of this program and to report the findings to Congress by January 2013. Legislation drafted by the Senate had a slightly different focus, which was to mitigate these risks. Another attempt to address this issue materialized in the form of 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. Both of these bills were referred to House and Senate subcommittees.

The insurance industry remains divided on this issue. The National Association of Mutual Insurers (NAMIC), an organization that represents insurers owned by their policyholders, was in favor of maintaining the status quo of the NFIP. However, several large, publicly traded insurers were in favor of privatizing the NFIP and seeking privatization of insurance coverage as a means of resolving this issue.

Industry trends

TRIA provides a federal backstop

Although 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.

Industry trends

Terrorism insurance poses challenges for P/C industry

The insurance industry's perspective on insuring terrorism is that this kind of risk is unlike any other for which the industry provides coverage. To be insurable, a risk must first be measurable. To adequately price a risk, insurers must be able to ascertain the probable number of events (i.e., the frequency) likely to result in claims. Next, they must be able to estimate the potential maximum size or cost of these events (i.e., the severity). By calculating the probable frequency and severity of an event, insurers can then better evaluate the cost of insuring a particular risk.

A terrorist act, according to the insurance industry, does not possess these characteristics, rendering it impossible to price as a risk. Also, since there have been very few large-scale terrorist attacks, very little data exist from which to draw conclusions as to both severity and frequency trends.

There is a general agreement that the establishment and extension of TRIA has helped insurance companies provide some meaningful terrorism protection, largely due to the backstop protection the federal government offers. In return for the federal backstop, commercial insurers are required to make terrorism coverage available and to explicitly state its cost. Policyholders can opt out of the terrorism coverage if they choose. Nevertheless, each time TRIA has been extended, the point at which that government protection kicks in has been raised. When TRIA was extended in 2005, the amount of losses that private insurers would have to absorb before the government stepped in was increased to $50 million from $5 million. In 2007, the triggering event rose to $100 million: in other words, only terrorist events that produced losses in excess of $100 million would result in the outlay of federal funds. Moreover, individual insurance companies would have to incur losses equal to 20% of their commercial insurance premiums in 2007 before the federal program kicked in. When TRIA was extended in 2007, the definition of a certified act of terrorism was revised to eliminate the requirement that the individuals (or individual) are acting on behalf of any foreign person or foreign interest.

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Appendix A

Letters of representation

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

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Earl Ray Tomblin
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Ross Taylor
Acting Cabinet Secretary

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

October 15, 2012

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, 2012 and 2011 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 the 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 the BRIM, we are responsible for establishing and maintaining effective internal control.

The financial statements properly classify all funds and activities.

Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) 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.

We acknowledge our responsibility for the required supplementary information on MD&A and public entity risk pool disclosures, which have been measured and presented in conformity with the guidelines established by the applicable GASB statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations are reasonable.

We are responsible for the presentation of the supplementary information. We believe the supplementary information, including its form and content, is fairly presented. There are no significant assumptions or interpretations underlying the measurement of presentation of the information.

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.

The entity's ability to continue as a going concern was evaluated.

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:

August 16, 2011
November 15, 2011
February 28, 2012
May 15, 2012

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 that those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that those dates.

Investments

Investments are properly valued. To our knowledge, none of BRIM's investments have 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.

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

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, 2012 and 2011, estimated based on case basis estimates of claims reported prior to June 30, 2012 and 2011, 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, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011.

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, 2012 and 2011; 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, 2012 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 the 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.

Subsequent events

Subsequent events have been evaluated and classified as recognized or nonrecognized through October 12, 2012.

Subsequent to June 30, 2012, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the BRIM's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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

Charles E. Jones, Chief Executive Officer

S. W. Schumacher

Stephen W. Schumacher, Chief Financial Officer

Melody A. Duke

Melody A Duke, Controller

B

Appendix B

Table of required communications

Table of required communications

For reference purposes, communication requirements with the Board of Directors are summarized below.

	Communicate when event occurs	Communicate on a timely basis, at least annually
Auditor's responsibility under generally accepted auditing standards, including discussion of the type of opinion we are issuing		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 principle	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	
Uncorrected misstatements		X
Material corrected misstatements		X
Reportable 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	
Independence matters	X	

Table of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
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	

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1211-1413700

Financial Statements, Required Supplementary Information, and Other Financial Information

West Virginia Board of Risk and Insurance Management
(an Enterprise Fund of the State of West Virginia)
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

West Virginia Board of Risk and Insurance Management

Financial Statements, Required Supplementary Information, and Other Financial Information

Years Ended June 30, 2012 and 2011

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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 and for the year ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the BRIM's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the Organization'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 the Organization'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, 2012 and 2011, 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 as of June 30, 2012 and 2011, 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 15, 2012, on our consideration of the BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BRIM's financial statements. The other financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

October 15, 2012

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis

Year Ended June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Management of the West Virginia Board of Risk and Insurance Management (BRIM) provides this Management's 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, 2012, 2011, and 2010. 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, 2012, 2011, and 2010:

				Change 2012–2011		Change 2011–2010	
	2012	2011	2010	Amount	Percent	Amount	Percent
Cash and cash equivalents	$ 25,568	$ 23,231	$ 29,613	$ 2,337	10%	$ (6,382)	(22)%
Advance deposits with carrier/trustee	200,949	189,211	184,926	11,738	6	4,285	2
Receivables	996	934	1,349	62	7	(415)	(31)
Prepaid insurance	22	38	–	(16)	(42)	38	–
Total current assets	227,535	213,414	215,888	14,121	7	(2,474)	(1)
Noncurrent investments	138,164	140,522	120,331	(2,358)	(2)	20,191	17
Total assets	365,699	353,936	336,219	11,763	3	17,717	5
Estimated claim expense	47,719	43,259	45,707	4,460	10	(2,448)	(5)
Unearned premiums	5,494	6,095	6,629	(601)	(10)	(534)	(8)
Agent commissions payable	1,026	1,097	1,230	(71)	(6)	(133)	(11)
Accrued expenses	611	614	659	(3)	(0.5)	(45)	(7)
Total current liabilities	54,850	51,065	54,225	3,785	7	(3,160)	(6)
Estimated claim expense	89,267	82,968	89,721	6,299	8	(6,753)	(8)
Compensated absences	67	75	66	(8)	(11)	9	14
Total noncurrent liabilities	89,334	83,043	89,787	6,291	8	(6,744)	(8)
Total liabilities	144,184	134,108	144,012	10,076	8	(9,904)	(7)
Net assets:							
Restricted	45,599	43,061	38,420	2,538	6	4,641	12
Unrestricted	175,916	176,767	153,787	(851)	0.5	22,980	15
Net assets	$ 221,515	$ 219,828	$ 192,207	$ 1,687	1	$ 27,621	14%

	2012	2011	2010	Change 2012–2011 Amount	Change 2012–2011 Percent	Change 2011–2010 Amount	Change 2011–2010 Percent
Premiums	$ 51,046	$ 52,538	$ 58,007	$ (1,492)	(3)%	$ (5,469)	(9)%
Less excess coverage	(5,386)	(6,075)	(6,257)	(689)	(11)	(182)	(3)
Net operating revenues	45,660	46,463	51,750	(803)	(2)	(5,287)	(10)
Claims and claims adjustment expense	53,396	33,598	31,668	19,798	59	1,930	6
General and administrative	3,892	4,026	3,946	(134)	(3)	80	2
Total operating expenses	57,288	37,624	35,614	19,664	52	2,010	6
Operating (loss) income	(11,628)	8,839	16,136	(20,467)	(232)	(7,297)	(45)
Nonoperating revenues:							
Investment income	13,315	18,782	25,081	(5,467)	(29)	(6,299)	(25)
Financing income	–	–	32	–	–	(32)	–
Total nonoperating revenues, net	13,315	18,782	25,113	(5,467)	(29)	(6,331)	(25)
Changes in net assets	1,687	27,621	41,249	(25,934)	(94)	(13,628)	(33)
Total net assets – beginning	219,828	192,207	150,958	27,621	14	41,249	27
Total net assets – end	$ 221,515	$ 219,828	$ 192,207	$ 1,687	1	$ 27,621	14
Total revenues	$ 58,975	$ 65,245	$ 76,863	$ (6,270)	10	$ (11,618)	(15)
Total expenses	$ 57,288	$ 37,624	$ 35,614	$ 19,664	52	$ 2,010	6%

- Total assets increased by $11,763 in 2012 and $17,717 in 2011. The increases for both years can be largely attributed to investment returns on long-term investments holdings and the additions to advance deposits, including the earnings on the trust funds invested in both 2012 and 2011, exceeding the actual claims payments made for both years.

- Total liabilities increased $10,076 in 2012 and decreased $9,904 in 2011. Estimated claims expense increased in 2012, mostly from an unanticipated increase in State general liability claims (primarily in 2010 and 2011 reserves) and from a couple of large property loss occurrences that adversely impacted both the State and Senate Bill #3 (SB3) programs in 2012. The decrease for 2011 relates 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 those two segments and helped to reduce liabilities for the prior year. Loss development patterns used in the actuarial analysis are largely based on BRIM's experience.

- Several factors contributed to the $1,687 increase in total net assets for 2012 and the $27,621 increase for 2011. Investment returns in 2012 helped to bolster cash balances and increase the total amount invested, increasing total assets by $11,763. This was mostly offset by an increase in estimated claims expense liability that grew by a combined $10,759 for 2012, based on the current year-end actuarial study. Higher investment returns similarly contributed to the $17,717 increase in total assets for 2011. However, the previous year-end's actuarial study reflected favorable claims trend development, primarily within the SB3 program, with most of the improvement reflected in a decrease in the provisions for prior years' outstanding estimated claims reserves for 2011. The total reduction in outstanding claims reserves of $9,201 for 2011 had a favorable impact on estimated claims expense, reducing total liabilities for the prior year. Also included within the net asset category are restricted assets totaling $45,599 in 2012, $43,061 in 2011, and $38,420 in 2010 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 shrank by $803 in 2012 and by $5,287 in 2011. The current estimates of what is now needed to pay for several earlier prior years' outstanding claims reserves allowed for significant reductions in the premiums billed for both of these fiscal years. As a result, most of the reserve improvements for these earlier years were passed on to insured parties in the form of lower premiums.

- Total operating expenses increased to $57,288 in 2012 from $37,624 in 2011. Claims and claims adjustment expense increased year-over-year by $19,798. A decrease of $20,130 in the provisions for prior years' outstanding estimated claims reserves in 2011 lowered operating expense levels for 2011. The year over year difference also includes an increase of the provision for current-year reserves in 2012 that was $4,136 higher than the previous years' provision for current-year reserves.

- Nonoperating revenues decreased by $5,467 in 2012 and $6,331 in 2011. The diminishing investment returns reflect the lower interest rate environment that has evolved over the last several years, reducing overall yields on fixed income securities that make up most of the investments being held.

- Total revenues and total expenses from 2012 to 2011 and from 2011 to 2010 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.

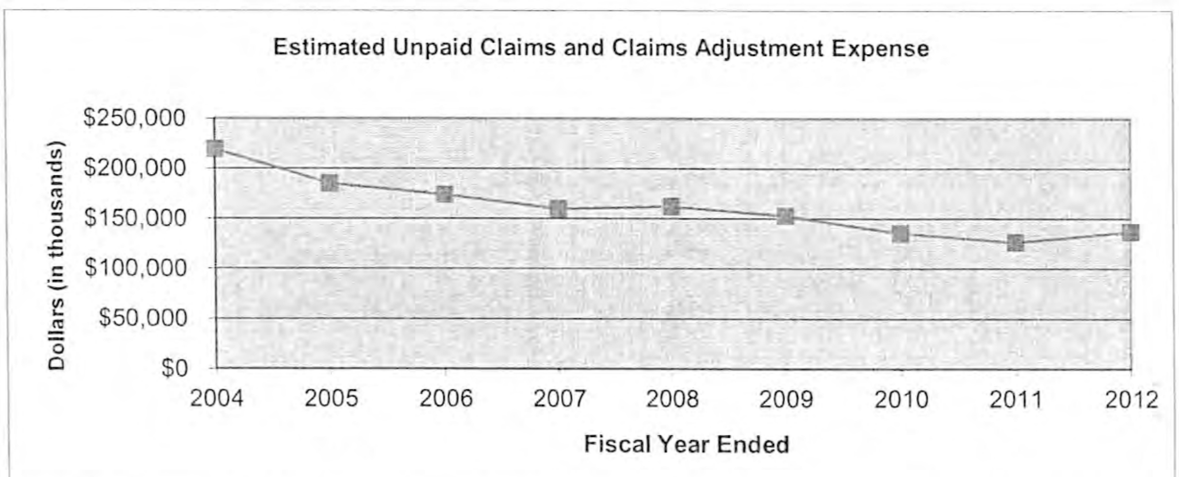
OVERALL ANALYSIS

(Dollars in Thousands)

The overall condition of BRIM marginally improved from the prior year. Although current-year reserves increased, a small reduction in the estimated claims reserves for prior years, together with investment earnings and aggressive risk management allowed BRIM to further increase the net assets for this year, reflecting a total of $221,515 at June 30, 2012. BRIM continues to adhere to a comprehensive financial stability and rating 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 2011 to 2012, the liability for unpaid claims increased from $126,227 to $136,986. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2004 through 2012.



House Bills 601 and 2122

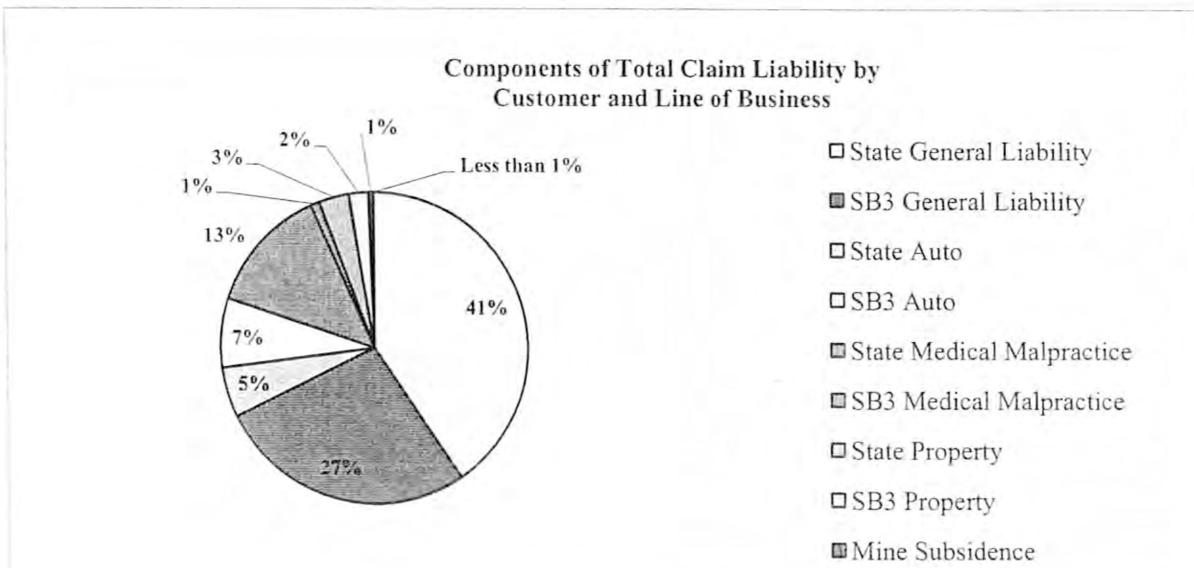
In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies'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

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, these physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were non-renewed by BRIM prior to June 30, 2004. The program is in "runoff" mode, and BRIM continues to service and pay claims that were made during the effective period or claims relating to tail coverage purchased. Tail coverage was offered to all terminated insurers in House Bill 601. This tail coverage covers the insured on any IBNR claims during the policy period. 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 $136,986. 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.



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 had no deficiency in net assets for the programs it oversees for several years. Previously, however, 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 continues to follow to ensure that all lines of business remain fiscally solvent and that the individual programs are financially sound.

Risk Management

BRIM continues pursuing an aggressive risk management plan to help identify the risks underlying the adverse losses that occurred in earlier 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

Investment income decreased for fiscal years 2012 and 2011 due to the declining interest rate environment subsequent to the 2008 financial crisis. All BRIM funds held by the West Virginia Investment Management Board (WVIMB) inure to the benefit of program participants. BRIM reinvests the investment earnings on funds held by the WVIMB and occasionally withdraws monies from these funds, as needed, for operating and short-term cash requirements. In 2012, BRIM withdrew $6 million of its funds, held by the WVIMB, for operational purposes.

Premium Determination Process

BRIM has properly maintained premiums across all lines of business for the past several years based on relevant exposure data, claims loss history and investment returns. Charging proper premiums, consistent with the commercial industry, has enabled BRIM to adequately cover losses. Although fiscal years 2011 and 2010 both benefited from prior years' reserve releases, 2012 saw a net increase in retained claims reserves. If this recent claim trend persists over the next several fiscal years and future investment returns continue to decline, it may require that premiums increase to allow for a sufficient level of funding to adequately sustain the operation of all programs and to help insure that no premium deficiency develops.

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 Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30 2012	2011
	(In Thousands)	
Operating revenues		
Premiums	**$ 51,046**	$ 52,538
Less excess coverage/reinsurance premiums	**(5,386)**	(6,075)
Net operating revenues	**45,660**	46,463
Operating expenses		
Claims and claims adjustment expense	**53,396**	33,598
General and administrative	**3,892**	4,026
Total operating expenses	**57,288**	37,624
Operating (loss) income	**(11,628)**	8,839
Nonoperating revenues		
Investment income	**13,315**	18,782
Net nonoperating revenues	**13,315**	18,782
Changes in net assets	**1,687**	27,621
Total net assets, beginning of year	**219,828**	192,207
Total net assets, end of year	**$ 221,515**	$ 219,828

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
	(In Thousands)	
Operating activities		
Receipts from customers	$ **45,028**	$ 46,309
Payments to employees	**(1,388)**	(1,541)
Payments to suppliers	**(2,603)**	(2,658)
Payments to claimants	**(42,637)**	(42,799)
Deposits to advance deposit with insurance company and trustee	**(56,130)**	(49,208)
Withdrawals from advance deposit with insurance company and trustee	**44,394**	44,927
Net cash used in operating activities	**(13,336)**	(4,970)
Investing activities		
Purchase of investments	**(18,752)**	(49,968)
Sale of investments	**22,348**	41,503
Net investment earnings	**12,077**	7,053
Net cash (used in) provided by investing activities	**15,673**	(1,412)
Net decrease in cash and cash equivalents	**2,337**	(6,382)
Cash and cash equivalents, beginning of year	**23,231**	29,613
Cash and cash equivalents, end of year	$ **25,568**	$ 23,231
Cash and cash equivalents consist of:		
Cash and cash equivalents	$ **14,718**	$ 13,830
Restricted cash and cash equivalents	**10,850**	9,401
	$ **25,568**	$ 23,231

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities		
Operating (loss) income	**$ (11,628)**	$ 8,839
Adjustments to reconcile operating loss (income) to net cash used in operating activities		
Increase in advanced deposits	**(11,738)**	(4,285)
(Increase) decrease in premiums receivable, net	**(46)**	415
Decrease (increase) in prepaid insurance	**16**	(38)
Increase (decrease) in estimated liability for unpaid claims and claims adjustment expense	**10,759**	(9,201)
Decrease in other liabilities	**(98)**	(166)
Decrease in unearned premiums	**(601)**	(534)
Total adjustments	**(1,708)**	(13,809)
Net cash used in operating activities	**$ (13,336)**	$ (4,970)
Noncash activities		
Increase in fair value of investments	**$ 1,238**	$ 11,726

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. In its accounting and financial reporting, BRIM follows the pronouncements of the Governmental Accounting Standards Board (GASB).

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.

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, 2012 and 2011, 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 $23,994 and $21,353 at June 30, 2012 and 2011, 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 its 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 P-1 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, 2012				June 30, 2011			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Pool Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Pool Assets**
Commercial paper	P-1	A-1	$ 853,470	30.62%	P1	A-1	$ 1,069,576	35.43%
Corporate bonds and notes	Aa1	AA-	-	-	Aa1	AA	10,000	0.33
	Aa2	AA-	15,000	0.54	Aa2	AA	33,000	1.09
	Aa3	AA-	13,000	0.47	Aa3	AA	31,000	1.03
	Aa3	A+	8,000	0.29	Aa3	A	53,000	1.76
			36,000	1.30			127,000	4.21
U.S. agency bonds	Aaa	AA+	189,691	6.80	Aaa	AAA	170,788	5.66
U.S. Treasury notes	Aaa	AA+	330,865	11.87	Aaa	AAA	298,345	9.88
U.S. Treasury bills	Aaa	AA+	237,978	8.54	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	110,000	3.95	P1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1+	738,706	26.50	P1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,054	7.18	Aaa	AAAm	200,279	6.64
Repurchase agreements								
U.S. Treasury notes	Aaa	AAA	90,204	3.24	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	-	-	Aaa	AAA	14,800	0.49
			90,204	3.24			84,357	2.79
			$ 2,786,968	100.00%			$ 3,018,560	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, 2012 and 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, 2012 and 2011, 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. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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, except for government floating rate notes, which can be up to 731 days. The following table provides the WAM for the various asset types in the WV Money Market Pool (fair values – in thousands):

	June 30, 2012		June 30, 2011	
Investment Type	**Fair Value**	**WAM Days**	**Fair Value**	**WAM Days**
Repurchase agreements	**$ 90,204**	**3**	$ 84,357	1
U.S. Treasury notes	**330,865**	**122**	298,345	137
U.S. Treasury bills	**237,978**	**37**	231,051	34
Commercial paper	**853,470**	**35**	1,069,576	35
Certificates of deposit	**110,000**	**10**	140,000	58
U.S. agency discount notes	**738,706**	**44**	697,164	45
Corporate bonds and notes	**36,000**	**48**	127,000	20
U.S. agency bonds/notes	**189,691**	**68**	170,788	66
Money market funds	**200,054**	**1**	200,279	1
Total rated investments	**$ 2,786,968**	**46**	$ 3,018,560	46

BRIM's amount invested in the West Virginia Money Market Pool of $23,994 included in cash and cash equivalents, at June 30, 2012, and $21,353 at June 30, 2011, 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, Short-Term Fixed Income 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	45
Hedge fund	20
TIPS	10
Short-term fixed income	5

(Dollars in Thousands)

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:

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Domestic large cap equity	$ **6,173**	$ **9,969**	$ 7,204	$ 10,287
Domestic non-large cap equity	**3,348**	**3,376**	3,554	3,667
International equity	**5,118**	**9,310**	3,458	9,091
International nonqualified equity	**2,678**	**4,327**	2,884	4,781
Total return fixed income	**31,033**	**40,623**	33,480	42,472
Core fixed income	**17,760**	**21,966**	19,750	23,093
Hedge fund	**24,748**	**27,434**	22,849	25,653
TIPS (Treasury Inflation Protection Securities)	**12,697**	**14,151**	13,987	14,280
Short-term fixed income	**7,008**	**7,008**	7,198	7,198
	$ **110,563**	$ **138,164**	$ 114,364	$ 140,522

Investment income is comprised of the following for the years ended June 30:

	2012	2011
Investment income:		
Interest income including realized gains/losses on sale of securities	$ **12,077**	$ 7,056
Unrealized gain on investments	**1,238**	11,726
Total investment income	$ **13,315**	$ 18,782

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, 2012 and 2011, 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 $9,969 and $10,287 at June 30, 2012 and 2011, 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, 2012 and 2011, 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 $3,376 and $3,667 at June 30, 2012 and 2011, represents approximately 0.5% of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

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

	June 30, 2012			June 30, 2011		
Currency	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian dollar	$ 63,284	$ 143	$ 63,427	$ 57,707	$ 4	$ 57,711
Brazil cruzeiros real	77,642	3,441	81,083	113,185	3,157	116,342
British pound	217,785	404	218,189	185,203	407	185,610
Canadian dollar	83,701	75	83,776	73,646	1,172	74,818
Czech koruna	6,230	–	6,230	14,883	–	14,883
Danish krone	6,858	24	6,882	9,198	4	9,202
Emirati Dirham	8,048	–	8,048	–	–	–
Egyptian pound	–	–	–	–	1	1
Euro	289,347	1,256	290,603	321,019	(24)	320,995
Hong Kong dollar	152,281	697	152,978	145,395	1,722	147,117
Hungarian forint	7,620	1	7,621	13,693	6	13,699
Indian rupee	35,768	380	36,148	15,598	2	15,600
Indonesian rupiah	8,313	145	8,458	7,629	15	7,644
Israeli shekel	13,413	103	13,516	16,949	140	17,089
Japanese yen	215,250	9,319	224,569	186,089	1,456	187,545
Malaysian ringgit	5,067	126	5,193	8,745	57	8,802
Mexican new peso	22,072	24	22,096	30,641	200	30,841
New Taiwan dollar	47,733	2,300	50,033	27,520	232	27,752
New Turkish lira	–	–	–	22,980	449	23,429
New Zealand dollar	7,513	58	7,571	–	–	–
Norwegian krone	21,877	28	21,905	20,476	100	20,576
Pakistani rupee	922	–	922	2,089	–	2,089
Philippine peso	7,751	75	7,826	6,195	2	6,197
Polish zloty	6,708	9	6,717	11,535	7	11,542
Singapore dollar	20,786	46	20,832	21,338	67	21,405
South African rand	51,153	57	51,210	44,669	167	44,836
South Korean won	128,548	2,374	130,922	134,565	1,474	136,039
Swedish krona	16,126	71	16,197	20,743	52	20,795
Swiss franc	62,607	6	62,613	68,353	40	68,393
Thailand baht	17,882	–	17,882	15,808	428	16,236
Turkish lira	42,295	48	42,343	–	–	–
UAE dirham	–	–	–	8,092	–	8,092
Total	$ 1,644,580	$ 21,210	$ 1,665,790	$ 1,603,943	$ 11,337	$ 1,615,280

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 $257,253 and $233,335 at June 30, 2012 and 2011, respectively. BRIM's amount invested in the international equity pool of $9,310 and

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

$9,091 at June 30, 2012 and 2011, represents approximately 0.5% of total investments in this pool.

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, 2012 and 2011, was $87,453 and $68,082, 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 $4,327 and $4,781 at June 30, 2012 and 2011, respectively, represents approximately 5.0% and 7.0% 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, 2012				June 30, 2011			
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	$ 754,176	33.7%	Baa2	BBB	$ 699,706	29.9%
U.S. Treasury bonds and notes	Aaa	AA+	309,610	13.9	Aaa	AAA	367,385	15.7
Corporate asset-backed securities	Aa2	AA-	38,005	1.7	Aa3	AA	32,194	1.4
Corporate collateralized mortgage obligations	B	B	21,589	1.0	B1	BB	31,137	1.3
Corporate preferred securities	Ba2	BB	8,572	0.4	NR	BB+	5,778	0.2
Agency mortgage-backed securities	Aaa	AA+	340,717	15.3	Aaa	AAA	443,640	19.0
Agency collateralized mortgage obligations	Aaa	AA+	32,536	1.5	Aaa	AAA	37,142	1.6
Municipal bonds	A1	A	93,246	4.2	A1	A	81,354	3.5
Regulated investment companies	Aaa	AAA	184,079	8.2	Aaa	AAA	227,854	9.7
Agency discount notes			–	–	P-1	A-1+	3,403	0.1
Foreign government bonds	Baa1	A-	6,293	0.3			–	–
Total rated investments			$ 1,788,823	80.2%			$ 1,929,593	82.4%

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2012, unrated securities include commingled investment pools of $441,868 and option contract purchased valued at $728. These unrated securities represent 19.8% of the fair value of the pool's investments. 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.

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, 2012 and 2011, 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, 2012 and 2011, 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 (fair value – in thousands):

	June 30, 2012		June 30, 2011	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Commingled investment pools	$ 441,868	2.7	$ 410,007	2.0
Corporate notes and bonds	754,176	6.4	699,706	6.3
U.S. Treasury notes and bonds	309,610	6.7	367,385	5.6
Corporate asset-backed securities	38,005	8.0	32,194	16.2
Corporate collateralized mortgage obligations	21,589	4.8	31,137	5.4
Agency mortgage-backed securities	340,717	8.5	443,640	3.3
Agency discount notes	–	–	3,403	0.5
Agency collateralized mortgage obligations	32,536	3.4	37,142	3.5
Municipal bonds	93,246	13.1	81,354	14.6
Regulated investment companies	184,079	0.0	227,854	0.0
Foreign government bonds	6,293	7.5	–	–
Total assets	$ 2,222,119	5.8	$ 2,333,822	4.6

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, 2012 and 2011, the Total Return Fixed Income pool held $432,847 and $544,113, respectively, of these securities. This represents approximately 20% and 23% of the value of the fixed income pools.

BRIM's amount invested in the Total Return Fixed Income pool of $40,623 and $42,472 at June 30, 2012 and 2011, respectively, represents approximately 1.8% of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

Of the notes, bonds, asset-backed securities, mortgage-backed securities, collateralized mortgage obligations and money market held by the Total Return Fixed Income pool, only the foreign government bond denominated in Mexican Peso is exposed to foreign currency risk. The market value of this bond is $6,293, which represents less than 1% of the value of the pool's securities. 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 $183,355, or 31%, at June 30, 2012, and $124,230, or 30%, at June 30, 2011, 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, 2012 and 2011, 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:

	June 30, 2012				June 30, 2011			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	A3	A	$ 271,566	22.7%	A2	A	$ 200,540	16.8%
U.S. Treasury bonds and notes	Aaa	AA+	278,786	23.2	Aaa	AAA	312,308	26.1
Corporate asset-backed securities	Aa2	AA+	30,397	2.5	Aa1	AAA	24,084	2.0
Corporate collateralized mortgage obligations	A1	AA+	145,724	12.1	A1	AAA	140,595	11.8
Agency mortgage-backed securities	Aaa	AA+	173,034	14.4	Aaa	AAA	173,704	14.5
Agency collateralized mortgage obligations	Aaa	AA+	268,484	22.3	Aaa	AAA	286,297	24.0
Agency notes and bonds	Aaa	AA+	16,801	1.4	Aaa	AAA	14,060	1.2
Municipal bonds	Aa3	AA-	4,781	0.4	Aa3	AA-	2,201	0.2
Regulated investment companies	Aaa	AAA	11,728	1.0	Aaa	AAA	40,883	3.4
Total rated investments			$ 1,201,301	100.0%			$ 1,194,672	100.0%

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, 2012 and 2011, 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, 2012 and 2011, 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 (fair value – in thousands):

	June 30, 2012		June 30, 2011	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Corporate notes and bonds	**$ 271,566**	**5.7**	$ 200,540	5.6
U.S. Treasury notes and bonds	**278,786**	**6.8**	312,308	6.1
Corporate asset-backed securities	**30,397**	**1.9**	24,084	1.6
Corporate collateralized mortgage obligations	**145,724**	**3.1**	140,595	3.6
Agency mortgage-backed securities	**173,034**	**6.9**	173,704	7.1
Agency notes and bonds	**16,801**	**5.0**	14,060	5.3
Agency collateralized mortgage obligations	**268,484**	**3.6**	286,297	3.6
Municipal bonds	**4,781**	**12.6**	2,201	14.6
Regulated investment companies	**11,728**	**0.0**	40,883	0.0
Total assets	**$ 1,201,301**	**5.0**	$ 1,194,672	5.0

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, 2012 and 2011, the Core Fixed Income pool held \$617,639 and \$624,680, respectively, of these securities. This represents approximately 51% and 52% of the value of the fixed income pools.

BRIM's amount invested in the Core Fixed Income pool of \$21,966 and \$23,093 at June 30, 2012 and 2011, respectively, represents approximately 1.8% and 1.9% 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, 2012 and 2011, approximately \$428,621 and \$457,406 or 41% and 46%, respectively, of the market value of the funds were held in foreign currencies. BRIM's amount invested in the Hedge Fund of \$27,434 and \$25,653 at June 30, 2012 and 2011, represents approximately 2.2% and 2.4% 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, 2012				June 30, 2011			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
U.S. Treasury issues	Aaa	AA+	$ 738,767	99.9%	Aaa	AAA	$ 891,182	100.0%
Money market funds	Aaa	AAA	406	0.1	Aaa	AAA	259	0.0
Total rated investments			$ 739,173	100.0%			$ 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, 2012 and 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, 2012 and 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 (fair value – in thousands):

	June 30, 2012		June 30, 2011	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
U.S. Treasury issues	$ 738,767	8.1	$ 891,182	7.6
Money market funds	406	0.0	259	0.0
Total assets	$ 739,173	8.1	$ 891,441	7.6

BRIM's amount invested in the TIPS pool of $14,151 and $14,280 at June 30, 2012 and 2011, respectively, represents approximately 1.9% and 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, 2012				June 30, 2011			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Aaa	AA+	$ 651	0.32%	Aaa	AAA	$ 9,101	4.79%
	Aa1	AA	1,524	0.76	Aa2	AA+	1,778	0.94
	Aa1	AA-	1,010	0.50	Aa1	AA	1,540	0.81
			3,185	1.58			12,419	6.54
U.S. Treasury bonds and notes	Aaa	AAA	151,297	75.08	Aaa	AAA	139,613	73.44
U.S. Agency bonds	Aaa	AA+	39,473	19.59	Aaa	AAA	34,320	18.05
Agency-backed securities	Aaa	AA+	3,653	1.81	Aaa	AAA	3,432	1.81
Money market funds	Aaa	AAA	3,897	1.94	Aaa	AAA	322	0.16
Total rated investments			$ 201,505	100.0%			$ 190,106	100.0%

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, 2012 and 2011, 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 (fair values – in thousands):

Investment Type	June 30, 2012 Fair Value	June 30, 2012 WAM Years	June 30, 2011 Fair Value	June 30, 2011 WAM Years
Corporate bonds and notes	**$ 3,185**	**1.9**	$ 12,419	1.2
U.S. Treasury bonds	**151,297**	**4.1**	139,613	4.6
U.S. agency bonds	**39,473**	**1.8**	34,320	2.5
Agency-backed securities	**3,653**	**3.0**	3,432	4.0
Money market funds	**3,897**	**1.0**	322	1.0
Total rated investments	**$ 201,505**	**3.5**	$ 190,106	4.0

Foreign Currency Risk

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

(Dollars in Thousands)

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:

	2012	2011
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 126,227**	$ 135,428
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**57,864**	53,728
Decrease in provision for insured events of prior years	**(4,468)**	(20,130)
Total incurred claims and claims adjustment expense	**53,396**	33,598
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**(10,156)**	(10,757)
Claims and claims adjustment expense attributable to insured events of prior years	**(32,481)**	(32,042)
Total payments	**(42,637)**	(42,799)
Total unpaid claims and claims adjustment expense liability at end of year	**$ 136,986**	$ 126,227

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2012 and 2011 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 $12,052 and $11,626 for fiscal years 2012 and 2011, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

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 his or her 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 its 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 2012 and 2011 was approximately $220, of which approximately $192 and $182 remained unpaid as of June 30, 2012 and 2011, respectively. The unpaid of $182 as of June 30, 2011, is recorded in accrued expenses and other

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

liabilities in the statements of net assets. The unpaid of $192 as of June 30, 2012, is recorded in accrued expenses and other liabilities in the statements of net assets. For fiscal years 2012 and 2011, BRIM's OPEB contribution was approximately $38 and $39, respectively, of the total required contribution of $220 for both years. The actual contribution represents 17% and 18% of the total required contribution for 2012 and 2011, respectively. BRIM's policy is to fund at least the minimum annual premium component of the ARC. There are currently 21 employees eligible to receive such benefits.

6. Lease Arrangement

In December 2011, the State renewed the lease arrangement on behalf of BRIM for office space occupied by BRIM with a monthly lease payment of $12 and a term beginning on January 1, 2012, and ending on December 31, 2016.

Operating lease expense approximated $140 and $133 for the years ended June 30, 2012 and 2011, respectively, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

2013	$139
2014	$139
2015	$139
2016	$139

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 $25,291 and $25,239 for the years ended June 30, 2012 and 2011, 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 $2,034 and $1,995 for the years ended June 30, 2012 and 2011, 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, 2012 or 2011.

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. Effective October 1, 2011, coverage was moved to Zurich Insurance Company. 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
					(In Thousands)					
1) Premiums and investment revenues										
Earned	$ 81,450	$ 110,279	$ 95,336	$ 89,690	$ 98,270	$ 83,498	$ 69,739	$ 83,088	$ 71,320	**$ 64,361**
Ceded	3,126	3,801	3,912	4,145	6,151	6,394	5,944	6,257	6,075	**5,386**
Net earned	78,324	106,478	91,424	85,545	92,119	77,104	63,795	76,831	65,245	**58,975**
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	11,168	14,332	8,301	8,894	8,536	8,045	7,840	8,043	7,867	**7,562**
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	83,642	94,279	65,674	58,491	59,678	59,246	56,194	51,388	53,728	**58,112**
Ceded	577	597	5	172	3,597	2,000	300	–	–	**248**
Net incurred	83,065	93,682	65,669	58,319	56,081	57,246	55,894	51,388	53,728	**57,864**
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	11,746	13,799	9,134	10,097	12,416	8,352	9,753	9,965	10,757	**10,156**
One year later	25,194	55,414	16,901	17,547	16,942	18,097	19,069	17,009	18,034	
Two years later	50,292	61,987	25,283	23,291	24,345	26,240	25,457	25,606		
Three years later	56,354	72,727	33,505	31,901	30,733	33,488	32,126			
Four years later	59,777	78,617	37,904	37,202	35,469	38,077				
Five years later	62,406	81,861	42,490	39,306	37,636					
Six years later	63,191	83,488	45,173	40,739						
Seven years later	63,803	83,877	45,641							
Eight years later	63,849	84,189								
Nine years later	63,856									
5) Reestimated ceded claims and expenses	577	597	5	172	3,597	2,000	300	–	–	–
6) Reestimated net incurred claims and allocated claims adjustment expense										
End of policy year	83,065	93,682	65,669	58,319	56,081	57,246	55,894	51,388	53,728	**57,864**
One year later	80,739	93,171	61,419	51,183	53,924	57,108	48,432	46,571	52,844	
Two years later	79,646	91,136	56,023	47,726	48,330	51,881	46,176	47,102		
Three years later	69,595	90,453	52,893	45,490	44,898	46,708	45,328			
Four years later	65,434	87,424	50,179	44,898	43,179	45,459				
Five years later	62,177	86,199	50,097	43,237	42,181					
Six years later	60,797	84,718	48,374	42,839						
Seven years later	59,632	83,815	47,843							
Eight years later	58,757	83,723								
Nine years later	58,714									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(24,351)	(9,959)	(17,826)	(15,480)	(13,900)	(11,787)	(10,566)	(4,286)	(884)	–

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									
	2012					2011				
	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	$ 122,499	$ 2,864	$ 864	$ –	$ 126,227	$ 130,808	$ 3,660	$ 924	$ 36	$ 135,428
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	48,654	8,571	639	–	57,864	48,954	4,173	601	–	53,728
(Decrease) increase in provision for insured events of prior fiscal years	(123)	(4,193)	(159)	7	(4,468)	(19,616)	(438)	(40)	(36)	(20,130)
Total incurred claims and claims adjustment expense	48,531	4,378	480	7	53,396	29,338	3,735	561	(36)	33,598
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(7,854)	(2,117)	(185)	–	(10,156)	(8,496)	(2,164)	(97)	–	(10,757)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	(34,104)	2,053	(423)	(7)	(32,481)	(29,151)	(2,367)	(524)	–	(32,042)
Total claims and claims adjustment expense payments	(41,958)	(65)	(607)	(7)	(42,637)	(37,647)	(4,531)	(621)	–	(42,799)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	$ 129,072	$ 7,177	$ 737	$ –	$ 136,986	$ 122,499	$ 2,864	$ 864	$ –	$ 126,227

Other Financial Information

West Virginia Board of Risk and Insurance Management

Combining Statement of Net Assets

June 30, 2012
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 14,718	$ –	$ –	$ 14,718
Advance deposits with carrier/trustee	200,949	–	–	200,949
Receivables, net	447	–	–	447
Prepaid insurance	22	–	–	22
Restricted cash and cash equivalents	–	5,465	5,385	10,850
Restricted receivables, net	–	549	–	549
Total current assets	216,136	6,014	5,385	227,535
Noncurrent assets:				
Investments	102,175	–	–	102,175
Restricted investments	–	35,989	–	35,989
Total assets	318,311	42,003	5,385	365,699
Liabilities				
Current liabilities:				
Estimated unpaid claims and claims adjustment expense	47,111	608	–	47,719
Unearned revenue	4,479	1,015	–	5,494
Agents commissions payable	1,026	–	–	1,026
Accrued expenses and other liabilities	596	15	–	611
Interprogram (receivables) payables	(19)	19	–	–
Total current liabilities	53,193	1,657	–	54,850
Noncurrent liabilities:				
Estimated claims and claims adjustment expense, noncurrent	89,138	129	–	89,267
Compensated absences	64	3	–	67
Total noncurrent liabilities	89,202	132	–	89,334
Total liabilities	142,395	1,789	–	144,184
Net assets				
Restricted	–	40,214	5,385	45,599
Unrestricted	175,916	–	–	175,916
Net assets	$ 175,916	$ 40,214	$ 5,385	$ 221,515

West Virginia Board of Risk and Insurance Management

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

June 30, 2012
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Operating revenues				
Premiums	$ 48,893	$ 2,090	$ 63	$ 51,046
Less excess coverage/reinsurance premiums	(5,386)	–	–	(5,386)
Total operating revenues	43,507	2,090	63	45,660
Operating expenses				
Claims and claims adjustment expense	52,909	480	7	53,396
General and administrative expense	3,788	102	2	3,892
Total operating expenses	56,697	582	9	57,288
Operating (loss) income	(13,190)	1,508	54	(11,628)
Nonoperating revenues				
Investment income	12,339	971	5	13,315
Finance income	–	–	–	–
Net nonoperating revenues	12,339	971	5	13,315
Changes in net assets	$ (851)	$ 2,479	$ 59	$ 1,687

West Virginia Board of Risk and Insurance Management

Deposits Disclosure

Form 7

June 30, 2012
(In Thousands)

	Fair Value	
Cash with Treasurer	$ 1,574	(1)

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

Cash with Treasurer	$ 1,574	(2)
Cash equivalents with BTI	23,994	(2)
	$ 25,568	(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, 2012
(In Thousands)

Investment Pool	Amount Unrestricted		Amount Restricted		Amount Reported		Fair Value
BTI and WVIMB Investment Pools:							
Cash liquidity	$ 13,767	(1)	$ 10,227	(1)	$ 23,994	(3)	$ 23,994
Short-term	102,175	(1)	35,989	(1)	138,164	(3)	138,164
Total investments	$ 115,942	(1)	$ 46,216	(1)	$ 162,158		$ 162,158

(1) Agrees to audited statement of net assets as follows:				
Investments with BTI and WVIMB	$ 115,942		$ 46,216	
Less investments classified as cash equivalents	13,767		10,227	
Total investments	$ 102,175	(2)	$ 35,989	(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, 2012
(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	$ 10,850	(1)
Unrestricted	14,718	(1)
Total cash and cash equivalents	25,568	
Less investments disclosed as cash equivalents	23,994	(2)
Fair value of deposits as disclosed on Form 7	$ 1,574	(2)
Investments:		
Investments as reported:		
Noncurrent – restricted	$ 35,989	(1)
Noncurrent – unrestricted	102,175	(1)
Total investments	138,164	(2)
Add investments disclosed as cash equivalents	–	
Fair value of investments as disclosed on Form 8	$ 138,164	

(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, 2012
(In Thousands)

	Amount	
Accounts receivable (other than State agencies):		
Total accounts receivable as of June 30, 2012	$ –	(1)
Less allowance for doubtful accounts	–	(2)
Net receivable	$ –	

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

Receivables:		
Premiums due from other entities	$ –	(2)
Other	447	(2)
Restricted receivables:		
Premiums due from other entities	549	(2)
	$ 996	

(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, 2012
(In Thousands)

Receivable From	**Amount**
Total accounts receivable	$ – (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, 2012
(In Thousands)

Type of Debt	Final Maturity Date	Balance as Reported June 30 2011	Payments	Other Changes	Balance June 30 2012	
Compensated absences – annual leave	Varies	$ 75	$ –	$ (8)	$ 67	(1)

(1) Agrees to audited statement of net assets.

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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 Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the West Virginia Board of Risk and Insurance Management (BRIM) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. 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

Management of BRIM is responsible for establishing and maintaining effective 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 the 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 a 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 that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 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, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

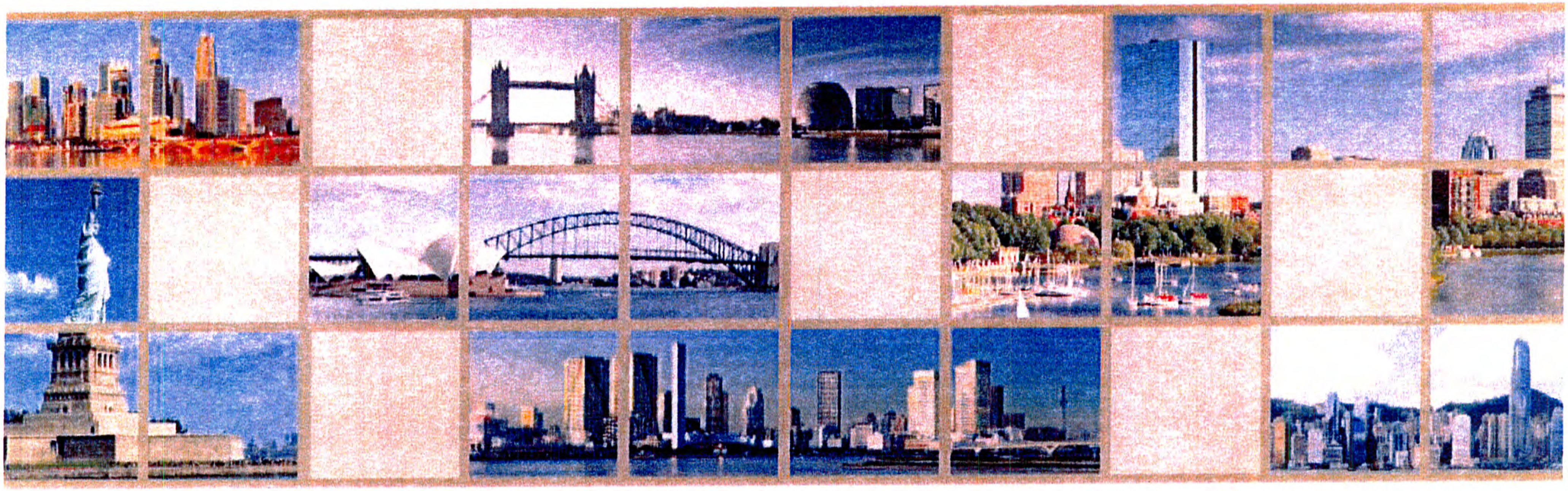
Ernst + Young LLP

October 15, 2012

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

STANDISH



Presentation for:

The State of West Virginia BRIM

December 4, 2012

Agenda

I. Corporate Overview

II. Market Environment

III. Performance & Portfolio Review

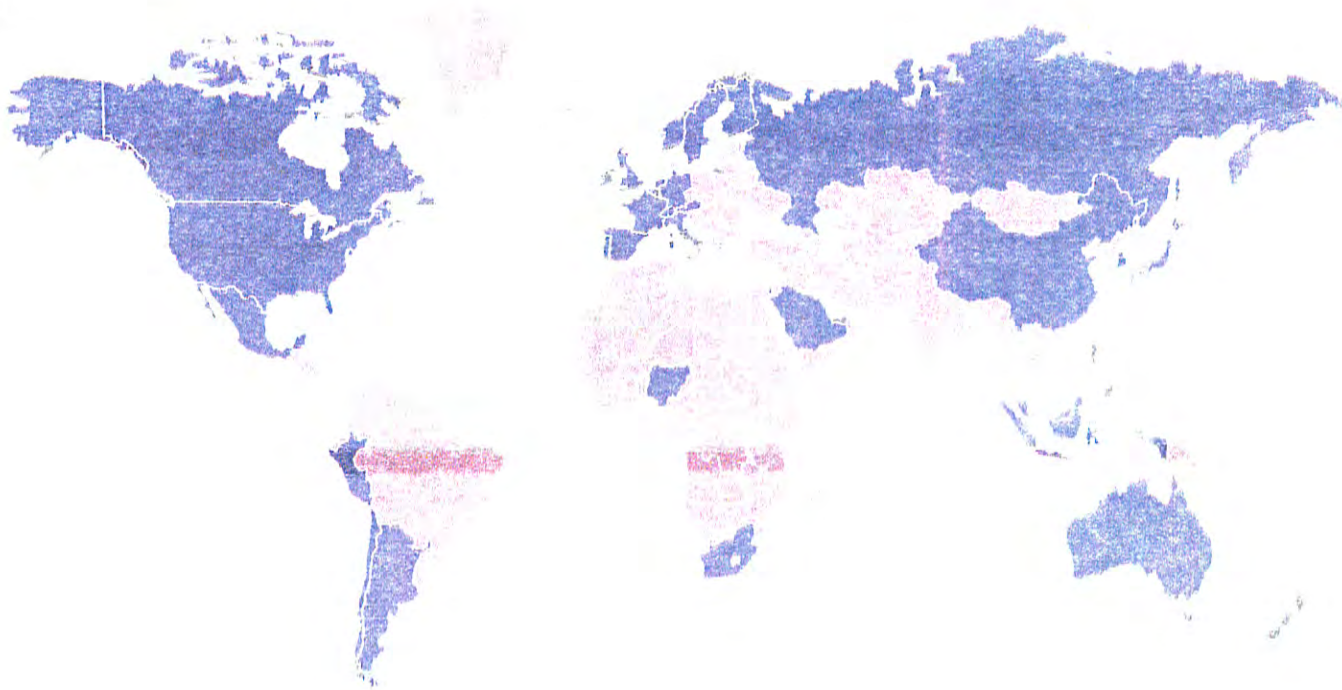
IV. Client Service Update

V. Appendix

Section I.

Introduction to Standish

- Dedicated exclusively to fixed income and credit solutions
- Founded in 1933
- US$103 billion in assets under management*
- 135 employees – 98 investment professionals†
- US, regional, and global mandates
- Clients in 35 countries



Source: Standish as of September 30, 2012.

* This figure includes assets managed by Standish personnel acting as dual officers of The Dreyfus Corporation and The Bank of New York Mellon, also subsidiaries of The Bank of New York Mellon Corporation.

† Includes shared employees of BNY Mellon Asset Management (UK) Limited and MBSC Securities Corporation, both affiliates of Standish Mellon Asset Management Company LLC ("Standish"), and contracted research capabilities in Singapore. These individuals may from time to time act in the capacity of shared employees of Standish, performing sales, marketing, portfolio management support, research and trading services for certain Standish managed accounts.

In addition, Standish is also supported by BNY Mellon Asset Management Operations LLC ("BNYM AM Ops") which is a legally separate entity that provides services related to all aspects of IT and operations, including front, middle and back office services through a Service Level Agreement.

Indicates countries that are home to Standish clients.

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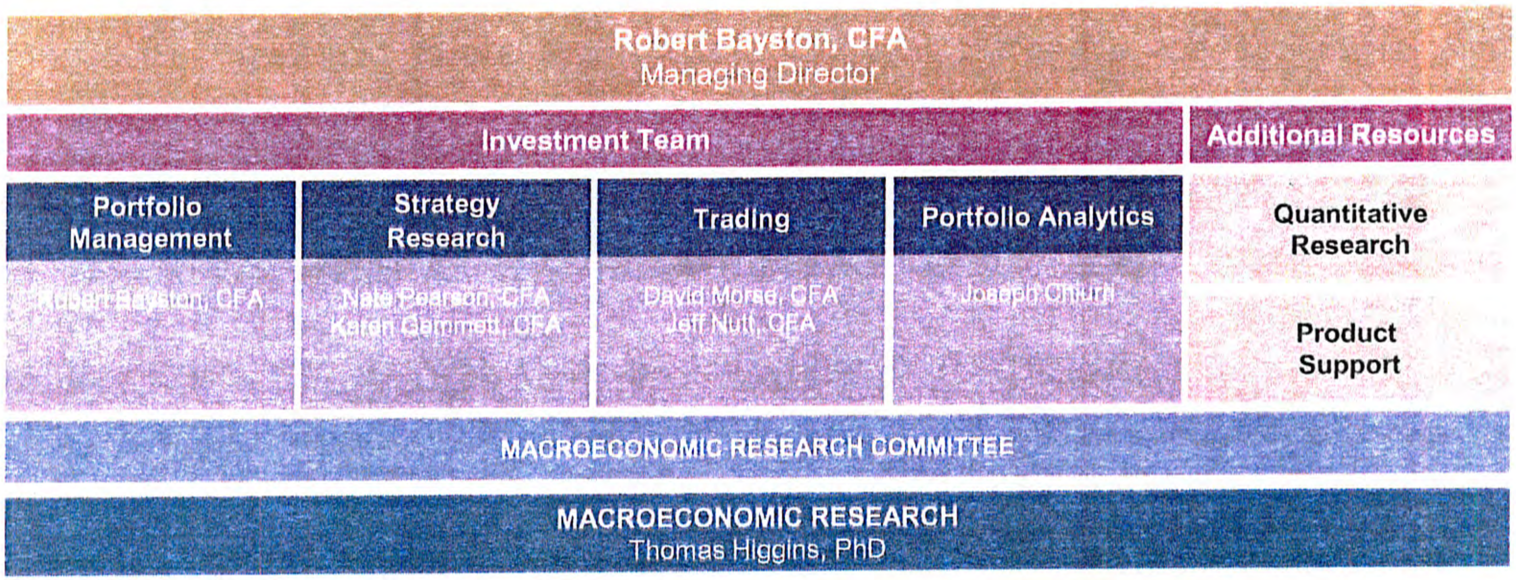
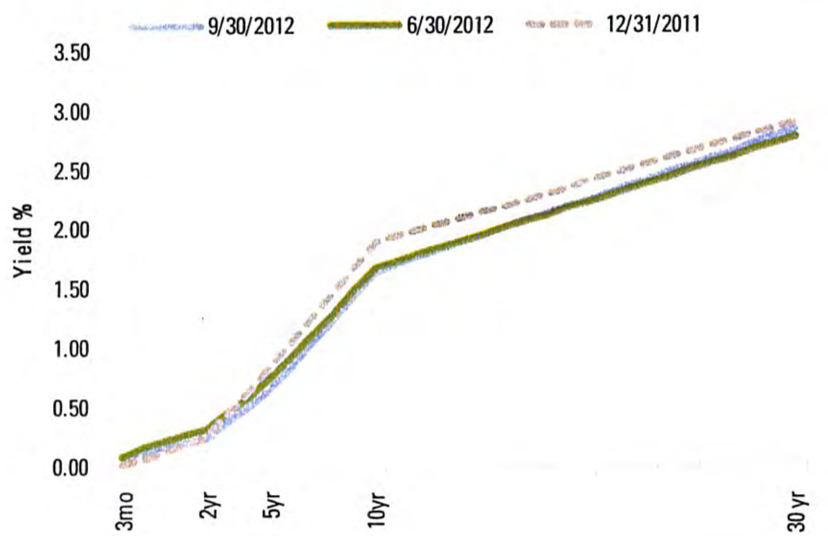
Interest Rate Strategies Team



Section II.

US Treasury Yields

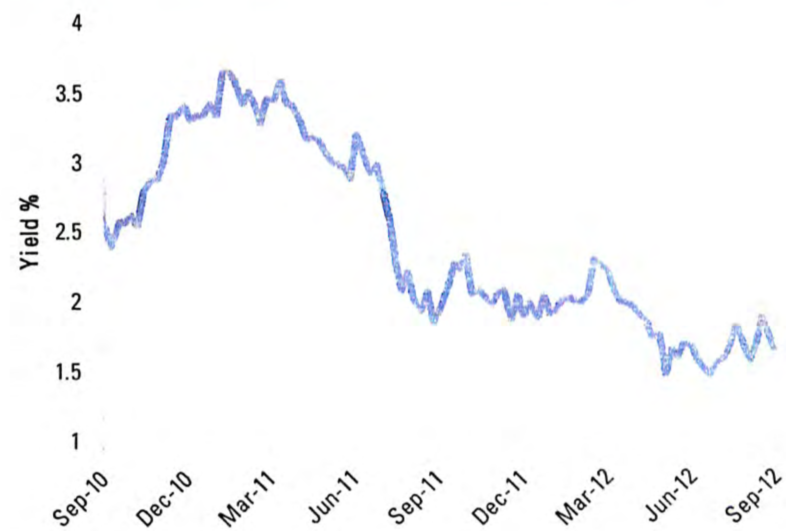
US Treasury Yield Curve



Source: Barclays as of September 30, 2012

- Treasury yields overall finished the quarter close to where they began. The yield curve maintained steepening bias in response to further monetary accommodation by the Federal Reserve.

US 10 Year Treasury Yield



Source: Bloomberg as of September 30, 2012

- Intermediate Treasury yields fluctuated within a 50 basis point range during the quarter as risk aversion peaked in July. Positive ECB action, QE3 by the Fed and better economic data domestically all supported the rise in yields from YTD lows in July.

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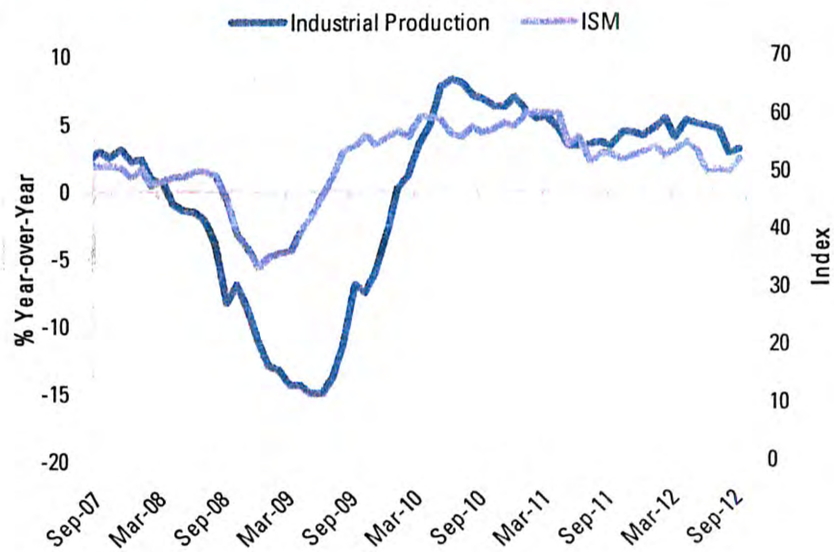
Real GDP and Manufacturing Activity

Real GDP

Source: Bloomberg as of September 30, 2012

- Real GDP for Q3 is expected to rise over the reading for Q2 as improved housing activity and strength in consumer spending helped offset weakness in business investment.

US Manufacturing Activity

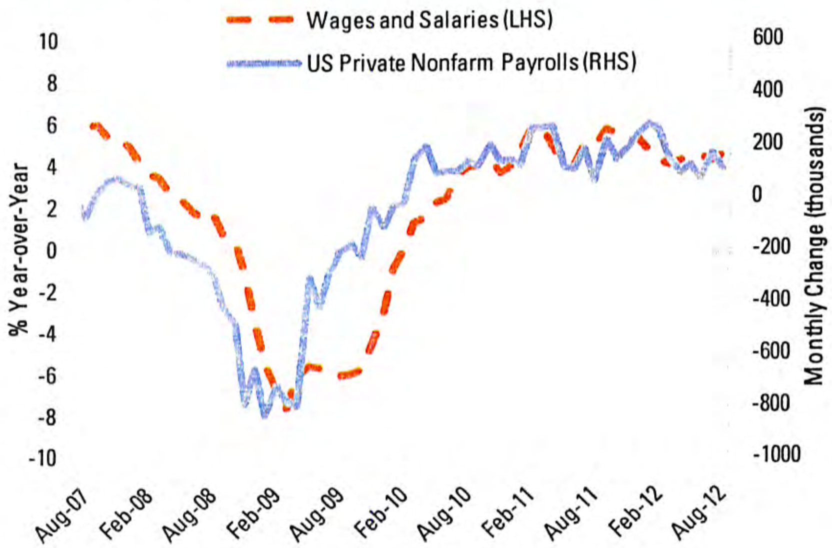


Source: Bloomberg as of September 30, 2012

- Manufacturing activity dropped early in the third quarter as the strength seen in early spring continue to moderate. ISM readings were just below 50 for much of the quarter before rising slightly in September.

Employment

Private Employment and Wages and Salaries



Source: Bureau of Labor Statistics as of August 31, 2012

- Labor conditions improved somewhat in Q3 with average gains of 145k a month, well above the 67k average for Q2. Despite modestly improving labor conditions, wage and salary growth continues to be anemic.

Weekly Jobless Claims (4 Week Moving Average)

Source: Bloomberg as of September 30, 2012

- High frequency employment data suggests recent improvement in labor conditions should continue but there appears no indication of a more widespread improvement associated with above trend growth.

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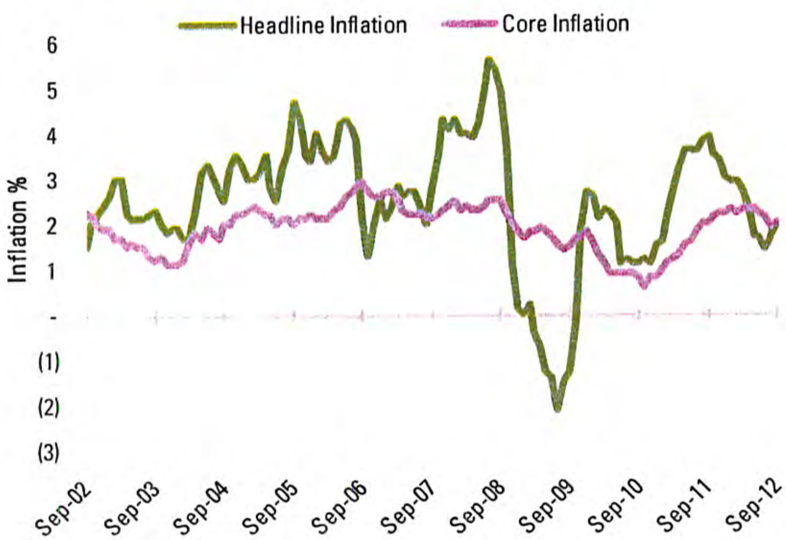
Core Inflation and Inflation Expectations

Headline versus Core Inflation



Source: Barclays, Bloomberg as of September 30, 2012

- Core inflation continued to moderate somewhat in Q3 to 2% y-o-y . Headline inflation bottomed in July at 1.4% y-o-y following the declines in energy prices and rose to finish the quarter in line with core inflation measures.

Inflation Expectations

Source: Bloomberg as of September 30, 2012

- Market based inflation expectations measures rose significantly during the quarter as the market anticipated and ultimately received additional monetary accommodation by the Federal Reserve. The open-ended nature of the QE3 announcement took the market by surprise and supports higher long term inflation risk premiums.

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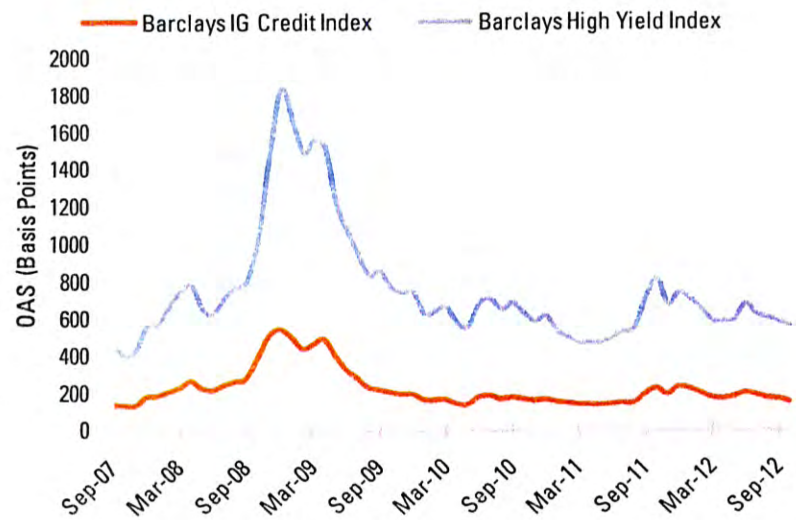
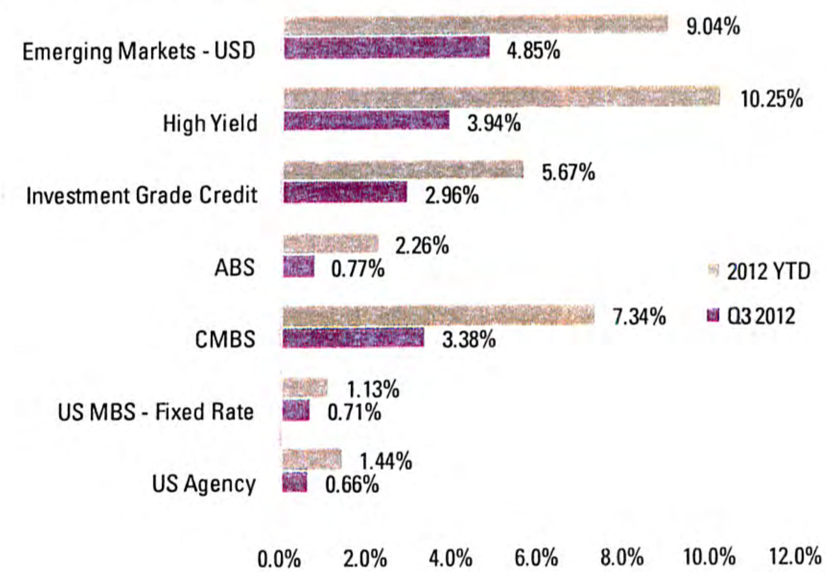
Sector Returns and Corporate Bonds Spreads

Corporate Bond Spreads



Source: Barclays as of September 30, 2012

Bond Market Returns - Excess Over Treasuries



Source: Barclays as of September 30, 2012

- Credit sectors performed very well in Q3 aided by attractive valuations, positive market sentiment and an improving economic backdrop.

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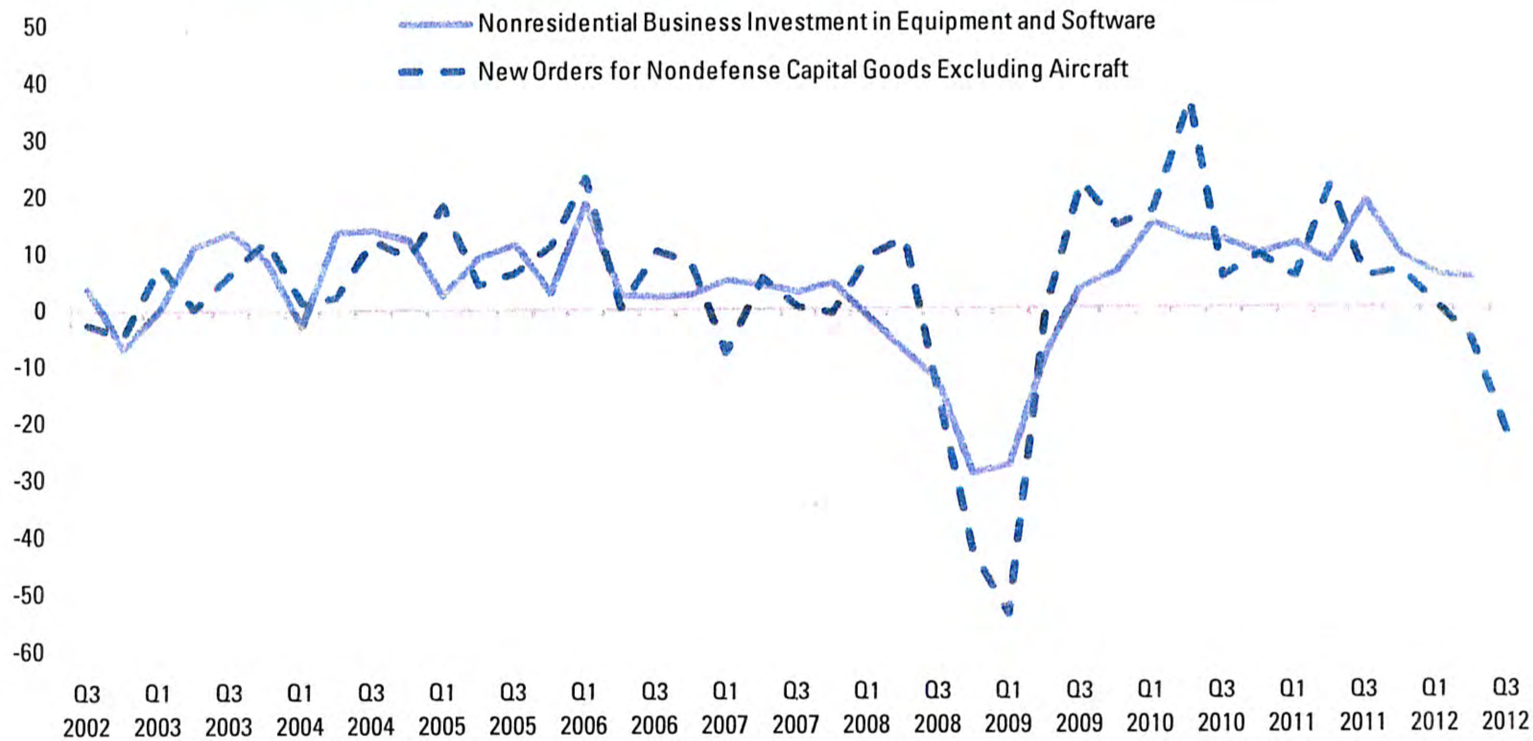
Global Economic Outlook

October 2012	Standish				Consensus/IMF			
	Real GDP		CPI		Real GDP		CPI	
Survey	**2012F**	**2013F**	**2012F**	**2013F**	**2012F**	**2013F**	**2012F**	**2013F**
United States	2.1	1.4	2.0	1.7	2.2	2.1	2.0	2.0
Japan	2.1	1.5	0.0	-0.1	2.4	1.3	0.1	0.0
United Kingdom	-0.1	1.1	2.2	2.0	-0.3	1.3	2.7	2.1
Euro zone	-0.5	0.5	2.0	1.5	-0.5	0.2	2.3	1.7
Developing Asia	6.9	7.3	4.5	4.8	7.1	7.5	5.0	4.6
Eastern Europe & CIS	3.1	3.5	5.8	5.2	3.1	3.5	6.7	6.3
Latin America	3.7	4.5	5.7	5.6	3.4	4.2	6.4	5.9
Global	**3.2**	**3.3**	**3.6**	**3.4**	**3.3**	**3.6**	**4.0**	**3.6**

Source: Standish, The International Monetary Fund, and Consensus Forecasts as of September 2012 based on purchasing power parity
F = Forecast

U.S. Businesses Seem Cautious About Investing and Hiring Ahead of Fiscal Cliff

Core New Orders Lead Business Investment by 3 to 6 Months



Source: Bureau of Economic Analysis and Census Bureau as of September 2012

Standish Base Case: Fiscal Cliff Reduces Growth in 2013

	Fiscal Year 2013	Calendar Year 2013	Percent of GDP
Proposed Deficit Reduction	607	807	4.9%
Most Likely Deficit Reduction	178	237	1.4%
Expiration of payroll tax reduction	95	126	0.8%
Taxes in the Affordable Care Act	18	24	0.1%
Other changes in revenue and spending	65	87	0.5%

Trend Growth Post-2009	2013 GDP Forecast: Consensus	2013 GDP Forecast: Standish
2.2%	2.1%	1.4%

Source: Congressional Budget Office as of May 2012

Fed Seeks to Partially Offset Fiscal Drag Through Quantitative Easing

Quantitative Easing (Q3)

Open-ended asset purchase plan

$40bn/month in new Agency mortgages purchases

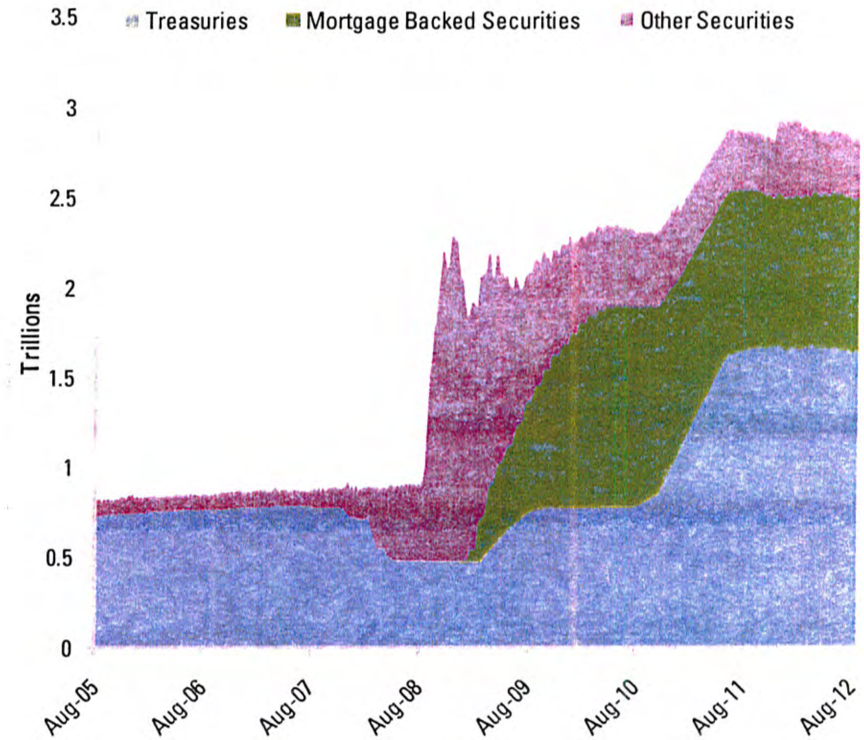
$30bn/month in reinvestment in Agency mortgages

Further asset purchases likely without "substantial" improvement in jobs market

Policy to remain easy for a "considerable time after the economic recovery strengthens"

Source: Federal Reserve as of September 2012

Fed Security Holdings



Source: Federal Reserve as of September 2012

Section III.

Guideline Checklist

FIXED INCOME GUIDELINE CHECKLIST

Account Name: STATE OF WEST VIRGINIA

Relationship Manager: Scott Mountain

Account Number: 3261, 3589, 3599, 7447, 7448, 7492, 3795, 637

Date: 12/2011

Type of Investment		Eligible	Prohibited	Comments	Date
Quality Rating:	Aa/AA	X			
	Aa/A	X			
	A/A		X		
	A/BBB		X		
	Baa/BBB		X		
	Baa/BB		X		
	BB		X		
	Ba/B		X		
	B		X		
	B/CCC		X		
	CCC/CCC		X		
	Not Rated		X		
	% Maximum				
	Min. Quality Rating			AA-, as established by two or more of the nationally recognized bond ratings services; Prompt written notice of downgrades with managers position on the issue and intended action	
	Avg. Quality			AA-	
	Split Rated				
General:	Convertible Issues		X		
	Zero Coupon	X			
	Tax Exempt Issues		X		
	Surplus Note		X		
	Private Placement		X		
	Bank Loans		X		
Securitized:	Mtge-Related Sec.		X		
	Asset-Backed Sec.		X		
	CMOs		X		
	CDOs		X		
	IOs and/or POs		X		

AGENCY:

Any NRSRO (Nationally Recognized Statistical Rating Organization)	
S&P	X
Moody's	X
Duff & Phelps	
Fitch	X
NAIC (Insurance Accounts)	

DOWNGRADES TO BELOW MINIMUM QUALITY:

OK to hold	x
Sell within 90 days	
Sell within 180 days	

Account Name: STATE OF WEST VIRGINIA

Account Number: 3261, 3589, 3599, 7447, 7448, 7492

Type of Investment		Eligible	Prohibited	Comments	Date
Trade Finance:			X		
Foreign Related:	Nondollar		X		
	Emerging Market		X		
	Other	X		Yankee Bonds	
Derivatives:	Futures		X		
If eligible see "Notes Below"	Options		X		
	Swaps		X		
Short term Securities:				Money Market Funds rated AAA by major ratings agency allowed	
Repurchase Agreements				Allowed	
Issuer Restrictions				With the exception of U.S. Government obligations and its agencies as referred to under "Eligible Investments" the exposure to any individual issuer is limited to 4.9% of the accounts market value at the time of purchase	
Maturity Restrictions:	Portfolio				
	Issuer			No individual security can exceed 10 years from the date of purchase.	
Loss Restrictions					
Other Restrictions					
Duration Restrictions:	Portfolio			Averaged duration of the portfolio shall remain within a 25% range versus the average duration of the Lehman Brothers Intermediate Government Index	
	Issuer				
Benchmark Index				Barclays Intermediate Government Index	
Qualified Institutional Buyer					
ERISA					
NOTES:				"Eligible Investments": The portfolio may invest in U.S. Government obligations or deposits issued or guaranteed as to interest and principal by the government of the United States or any agency or instrumentality thereof. Corporate obligations, with credit ratings of AA- or above as established by 2 or more of the nationally recognized bond rating services, are allowable investments.	

Please sign to verify guidelines:

Signature

Date

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State of West Virginia BRIM

State of West Virginia BRIM Market Values	
State of West Virgina - BRIM 2005-06	Market Value: $7,220,750
State of West Virginia - BRIM 2006-07	Market Value: $14,535,307
State of West Virginia - BRIM 2007-08	Market Value: $23,305,091
State of West Virginia - BRIM 2008-09	Market Value: $28,789,784
State of West Virginia - BRIM 2009-10	Market Value: $33,077,239
State of West Virginia Retro-Natl Union	Market Value: $13,382,430
State of West Virginia - BRIM 2010-11	Market Value: $31,243,872
State of West Virginia - BRIM 2011-12	Market Value: $38,136,884
State of West Virginia - BRIM 2012-13	Market Value: $17,707,137
Total	**Market Value: $207,398,494**

State of West Virginia BRIM

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/05 (%)
Total Return						
State of West Virgina – BRIM 2005-06	-0.08	1.47	2.38	3.96	5.21	4.95
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	5.04	4.90
Value Added	0.05	-0.07	-0.03	0.01	0.17	0.05
Market Value: $7,220,750						

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/06 (%)
Total Return						
State of West Virginia - BRIM 2006-07	-0.09	1.45	2.35	3.91	5.10	5.36
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	5.04	5.37
Value Added	0.04	-0.09	-0.06	-0.04	0.06	-0.01
Market Value: $14,535,307						

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/07 (%)
Total Return						
State of West Virginia - BRIM 2007-08	-0.08	1.47	2.35	3.90	5.19	5.35
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	5.04	5.33
Value Added	0.05	-0.07	-0.06	-0.05	0.15	0.02
Market Value: $23,305,091						

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State of West Virginia BRIM

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	Since Inception 1/31/09 (%)
Total Return					
State of West Virginia - BRIM 2008-09	-0.09	1.46	2.34	3.90	3.59
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	3.59
Value Added	0.04	-0.08	-0.07	-0.05	0.00
Market Value: $28,789,784					

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	Since Inception 8/31/09 (%)
Total Return					
State of West Virginia - BRIM 2009-10	-0.08	1.46	2.36	3.92	3.98
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	4.00
Value Added	0.05	-0.08	-0.05	-0.03	-0.02
Market Value: $33,077,239					

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	3 Year (%)	Since Inception 9/30/09 (%)
Total Return					
State of West Virginia Retro-Natl Union	-0.09	1.44	2.37	3.90	3.86
Barclays US Government Intermediate	-0.13	1.54	2.41	3.95	3.92
Value Added	0.04	-0.10	-0.04	-0.05	-0.06
Market Value: $13,382,430					

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State of West Virginia BRIM

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	Since Inception 8/31/10 (%)
Total Return				
State of West Virginia - BRIM 2010-11	-0.09	1.46	2.34	2.80
Barclays US Government Intermediate	-0.13	1.54	2.41	2.86
Value Added	0.04	-0.08	-0.07	-0.06
Market Value: $31,243,872				

Portfolio performance as of 10/31/2012

	3 months (%)	YTD (%)	1 Year (%)	Since Inception 8/31/11 (%)
Total Return				
State of West Virginia - BRIM 2011-12	-0.10	1.43	2.33	2.04
Barclays US Government Intermediate	-0.13	1.54	2.41	2.13
Value Added	0.03	-0.11	-0.08	-0.09
Market Value: $38,136,884				

Portfolio performance as of 10/31/2012

	3 months (%)	Since Inception 7/31/12 (%)
Total Return		
State of West Virginia - BRIM 2012-13	0.06	0.06
Barclays US Government Intermediate	-0.13	-0.13
Value Added	0.19	0.19
Market Value: $17,707,137		

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Outlook and Strategy – Interest Rate Strategies

Investment Environment	Portfolio Strategy
The US is likely to avoid the full effect of the pending fiscal cliff. Policy action in Europe has dampened large scale systematic risks associated with a Euro breakup. While the Federal Open Market Committee has remained ultra-accommodative, we believe flight-to-quality flows out of the euro zone have pushed treasury yields fundamentally too low.	Duration bias flat to short benchmark. Tactically take advantage of oversized yield moves.
QE3 focus on agency mortgage backed securities has led to materially tighter yield spreads on agency MBS, lower mortgage yields, and higher prepayment risks.	Reduce exposure to rich higher coupon MBS in favor of callable agency debentures and option related mortgage replication strategies. Purchase call protection via specified pools in at risk coupons.
In our view, Fed policy remains accommodative and will likely remain so for the foreseeable future. With the zero bound in short rates, the shape of the US yield curve is highly correlated to the direction of interest rates. Despite selling pressure by the Fed via Operation Twist, short end yields are seemingly well anchored. Our baseline outlook continues to be consistent with the Fed being on hold for an extended period of time.	Use curve exposure to express duration bias. Biased to underweight shorter maturities with two year notes near 25 basis points. Buy short maturities with two year notes in excess of 40 basis points.

Risks[1]

- A double dip recession in the US stemming from the 'fiscal cliff'
- Government-led mass refinancing leads to convexity event for mortgage market
- Policy mistakes in Europe, causing global financial contagion

[1] This is not an exhaustive list. Portfolio holdings are subject to change at any time.
Note: As of September 30, 2012

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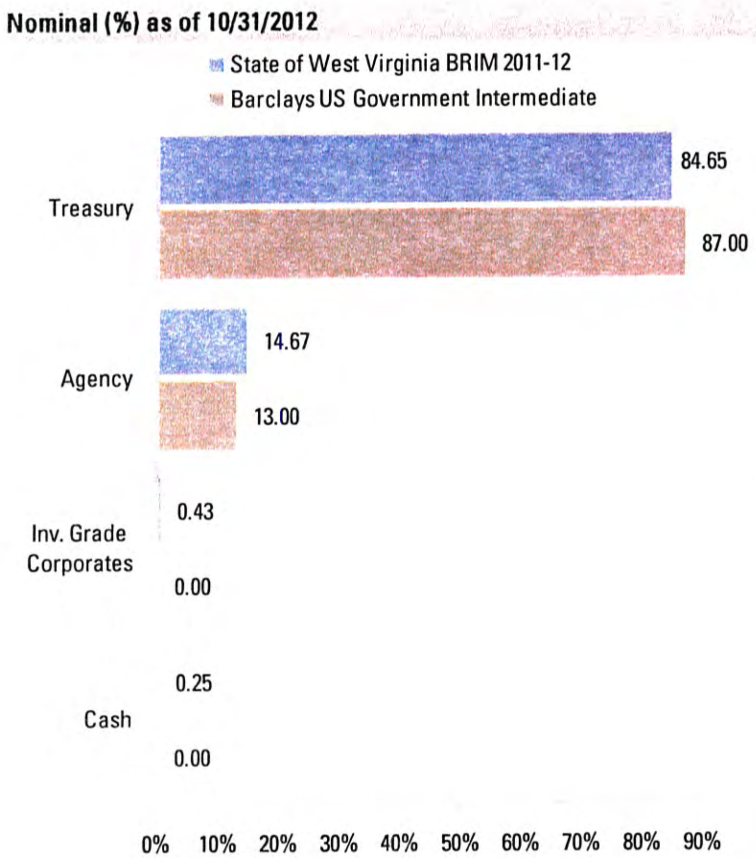
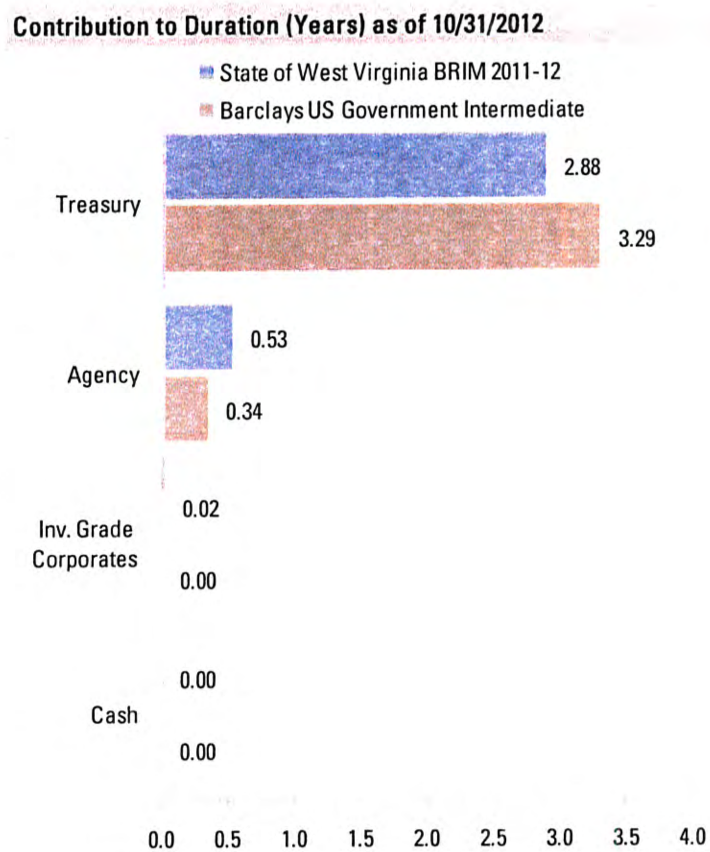
State of West Virginia – BRIM 2011-12 Sector Distribution vs. Benchmark





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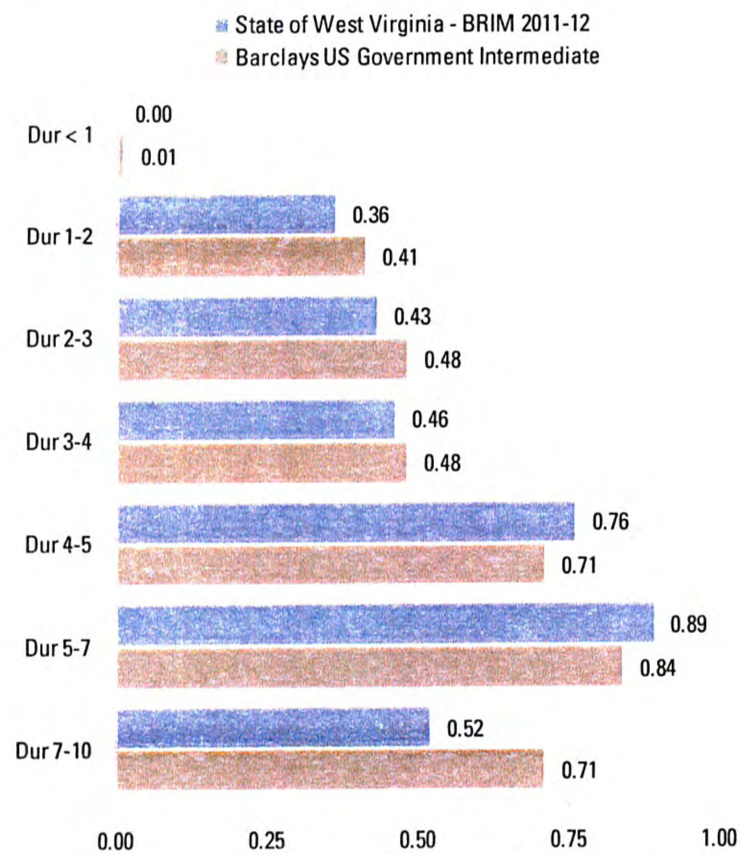
State of West Virginia – BRIM 2011-12 Duration & Characteristics

Portfolio vs Index as of 10/31/2012



Portfolio Duration: 3.42 years

Index Duration: 3.64 years

Summary Characteristics

	Portfolio	Index
Duration	3.42	3.64
Quality	AA	AA+
Yield to Maturity	0.56%	0.61%
Average Maturity	3.57	3.91
Coupon	1.54%	2.13%

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Section IV.

State of West Virginia BRIM's Relationship with Standish Team

Senior Relationship Manager
Scott Mountain, CFA
617-248-6397
smountain@standish.com

Client Service Associate
Brian Zukowski
617-248-6289
bzukowski@standish.com

Senior Portfolio Manager
Robert Bayston, CFA
617-248-6353
rbayston@standish.com

Comprehensive Relationship Management

- Periodic review meetings.
- Proactive strategy discussion with State of West Virginia BRIM
- Coordination between State of West Virginia BRIM and investment team

Key Reports and Communications

- Quarterly investment themes
- Monthly portfolio appraisals
- Topical economic and research updates
- Prospective Returns annual long-term outlook

Section V.

Disclosures

This information is not provided as a sales or advertising communication. It does not constitute investment advice. It is not an offer to sell or a solicitation of an offer to buy any security. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. This information is not intended to provide specific advice, recommendations or projected returns of any particular Standish Mellon Asset Management Company LLC ("Standish") product. Some information contained herein has been obtained from third party sources and has not been verified by Standish. Standish makes no representations as to the accuracy or the completeness of any of the information herein.

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This portfolio data should not be relied upon as a complete listing of the Portfolio's holdings (or top holdings) as information on particular holdings may be withheld if it is in the client's best interest to do so. Portfolio holdings are subject to change without notice and may not represent current or future portfolio composition. The portfolio date is "as of" the date indicated.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

The allocation distribution and actual percentages may vary from time-to-time. The types of investments presented in the allocation chart will not always have the same comparable risks and returns. The actual performance of the portfolio will depend on the Investment Manager's ability to identify and access appropriate investments, and balance assets to maximize return while minimizing its risk. The actual investments in the portfolio may or may not be the same or in the same proportion as those shown above.

Standish believes giving an proprietary Average Quality Credit rating to the holdings in a portfolio more accurately captures its characteristics versus using a single rating agencies ratings. Standish has a ratings/number hierarchy whereby we assign a number between 0 (unrated bond) and 21 (S&P or Moody's AAA) to all bonds in a portfolio based on the ratings of one or more of the rating agencies (with the lower of the 2 available agencies ratings prevailing), and then take a weighted numerical average of those bonds (with weighting based on each bonds percentage to the total portfolio assets). The resulting number is then compared back to the ratings/number hierarchy to determine a portfolio's average quality. For example, if Moody's AAA, S&P AAA= 21, Moody's A1, S&P A+= 17, Moody's Baa1 and S&P BBB+=14, Moody's B1 and S&P B+=7. The numeric average of the 4 equally weighted holdings is 14.75, rounded up to the next whole number of 15. 15 converts to an average credit rating of S&P A/Moody's A2.

To the extent the strategy invests in foreign securities, its performance will be influenced by political, social and economic factors affecting investments in foreign companies. Special risks associated with investments in foreign companies include exposure to currency fluctuations and controls, less liquidity, less developed or less efficient trading markets, less governmental supervision and regulation, lack of comprehensive company information, political instability, greater market volatility, and differing auditing and legal standards.

Further, investments in foreign markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations on removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in a foreign currency will be subject to changes in exchange rates that may have an adverse effect on the value, price or income of the investment.

These risks are magnified in emerging markets and countries since they generally have less diverse and less mature economic structures and less stable political systems than those of developed countries.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the portfolio. For example, investments made for the portfolio may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark. Accordingly, investment results and volatility of the portfolio may differ from those of the benchmark. Also, the indices noted in this presentation are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the portfolio may incur. In addition, the performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance.

The information regarding the index is included merely to show the general trends in the periods indicated and is not intended to imply that the portfolio was similar to the index in composition or risk.

Standish sector models use regression analysis such as multi-linear data inputs, panel data, and probit function. Variables that the models take into account are: PMI, US Core CPI, Fed Fund rate, 3-month Libor, 3-month T-bill rate, foreign purchases of US Government bonds, Commodity Indices , Capacity Utilization, Deficit as a percent of GDP, S&P 500 return, Chicago Fed Index, IGOV, US output gap, Europe Core CPI, US unemployment rate, EU unemployment rate, and slope of the yield curve. Assumptions made are that samples are representative of the population for the inference prediction; regression residuals are approximately normally distributed, uncorrelated, and have constant volatility; no high degrees of multi-colinearity in the independent variables, variable sensitivity remains constant in the short term; and no structural shift in the short term.

The World Economic Forum Global Competiveness Index measures competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.

Disclosures

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As of July 1, 2007, Mellon Financial Corporation and The Bank of New York Company, Inc. merged into a newly created entity. The Bank of New York Mellon Corporation. BNY Mellon Asset Management is the umbrella organization for The Bank of New York Mellon Corporation's affiliated investment management firms and global distribution companies.

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The information regarding the index is included merely to show the general trends in the periods indicated and is not intended to imply that the portfolio was similar to the index in composition or risk.

S&P 500 Index is considered to be generally representative of the U.S. large capitalization stock market as a whole. It is an unmanaged capitalization-weighted index of 500 commonly traded stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of those stocks. The index assumes reinvestment of dividends.

The S&P/Case-Shiller Home Price Indices are constructed to accurately track the price path of typical single-family homes located in each metropolitan area provided. The S&P/Case-Shiller Composite of 20 Home Price Index tracks changes in the value of residential real estate in 20 metropolitan regions.

Barclays Capital U.S. Treasury Index is an unmanaged index of public obligations of the U.S. Treasury.

Barclays Capital U.S. Agency Index is an unmanaged index of publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

Barclays Capital U.S. Mortgage-Backed Securities Fixed Rate Index is an unmanaged index of 15- and 30- year fixed rate securities backed by mortgage pools of Ginnie Mae, Freddie Mac and Fannie Mae.

Barclays Capital CMBS ERISA-Eligible Index is an unmanaged index of investment grade commercial mortgage backed securities that are ERISA eligible under the underwriter's exemption.

Barclays Capital CMBS ERISA-Eligible AAA Index is an unmanaged index of commercial mortgage backed securities rated AAA that are ERISA eligible under the underwriter's exemption.

Barclays Capital CMBS ERISA-Eligible <AAA Index is an unmanaged index of commercial mortgage backed securities rated between BBB and AA that are ERISA eligible under the underwriter's exemption.

Barclays Capital U.S. Credit Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes.

Barclays Capital U.S. Credit : Financial Index is an unmanaged index of publicly issued corporate debentures and secured notes in the financial sector.

Barclays Capital U.S. Credit : Industrial Index is an unmanaged index of publicly issued corporate debentures and secured notes in the industrial sector.

Barclays Capital U.S. Credit : Utility Index is an unmanaged index of publicly issued corporate debentures and secured notes in the utility sector.

Barclays Capital U.S. Credit : Non-Corporate Index is an unmanaged index of publicly issued sovereign, supranational, foreign agency, and foreign local government debentures and secured notes.

Barclays Capital U.S. Credit AAA Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated AAA.

Barclays Capital U.S. Credit AA Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated AA.

Barclays Capital U.S. Credit A Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated A.

Barclays Capital U.S. Credit BBB Index is an unmanaged index of publicly issued corporate, sovereign, supranational, foreign agency, and foreign local government debentures and secured notes rated BBB.

Barclays Capital U.S. High Yield Index is an unmanaged index of fixed rate, non-investment grade debt.

Barclays Capital Emerging Markets Index is an unmanaged index of USD-denominated debt from emerging markets in the following regions: Americas, Europe, Middle East, Africa, and Asia

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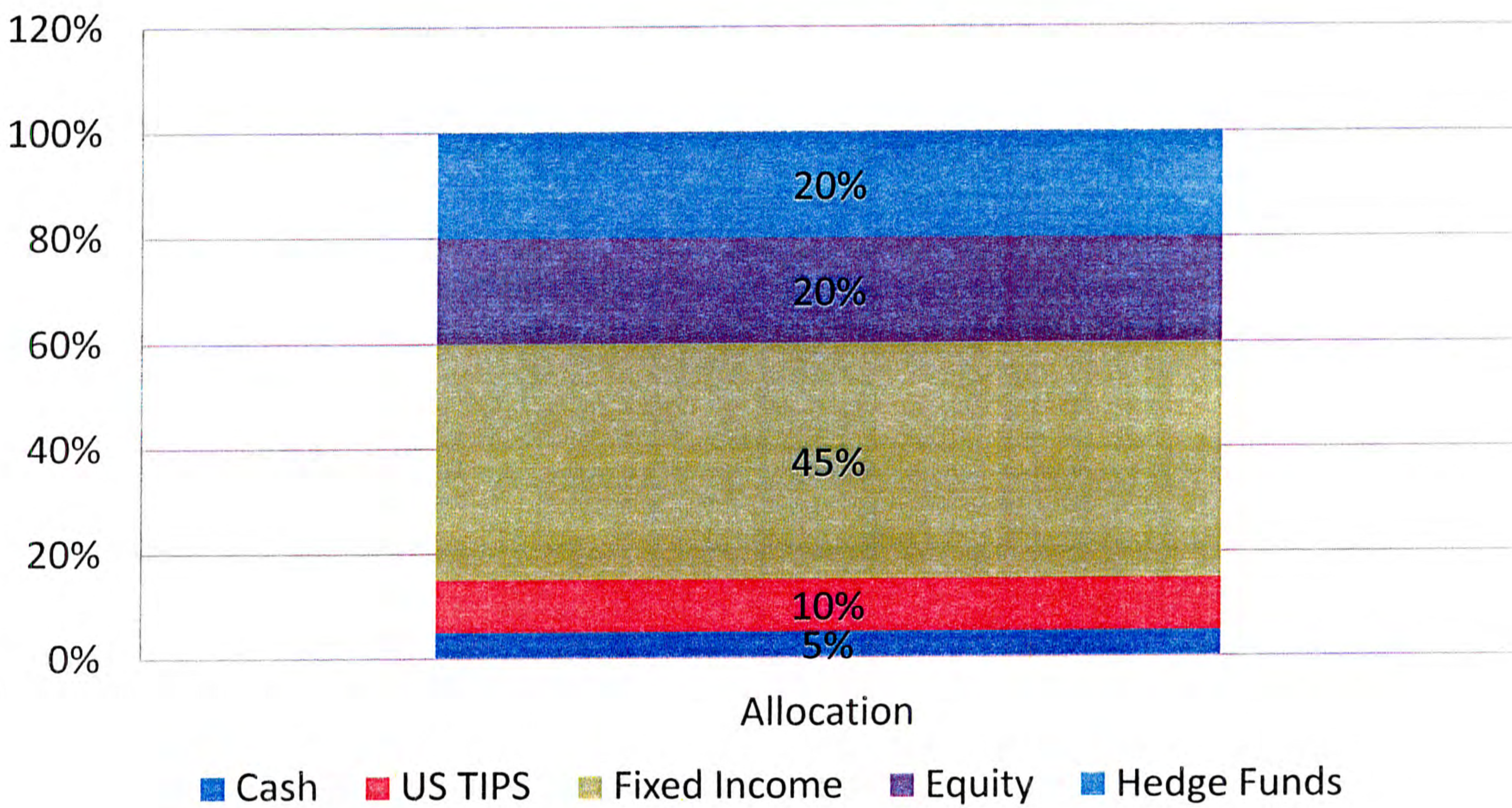
Investments

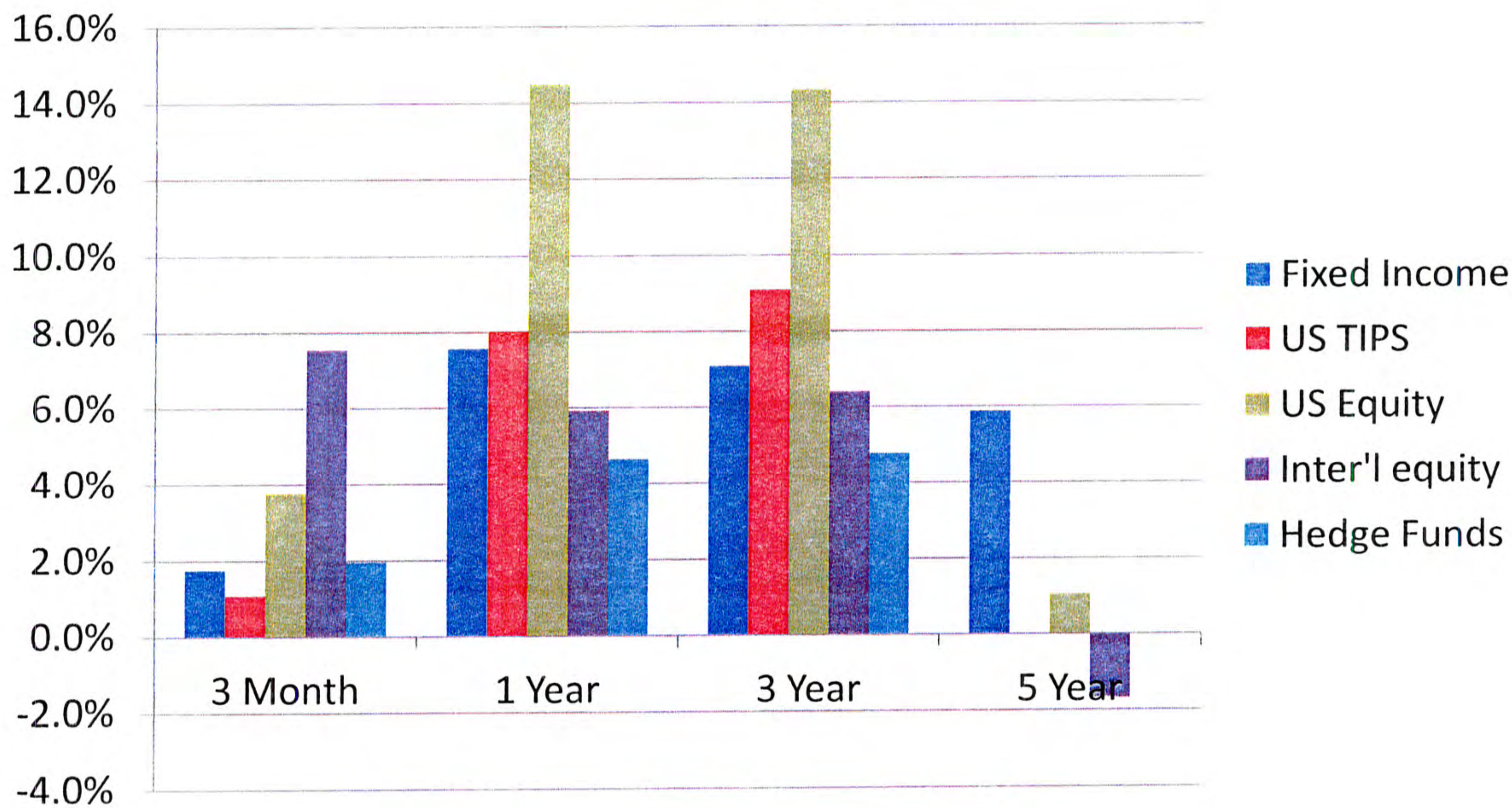
12-4-2012

Asset Allocation

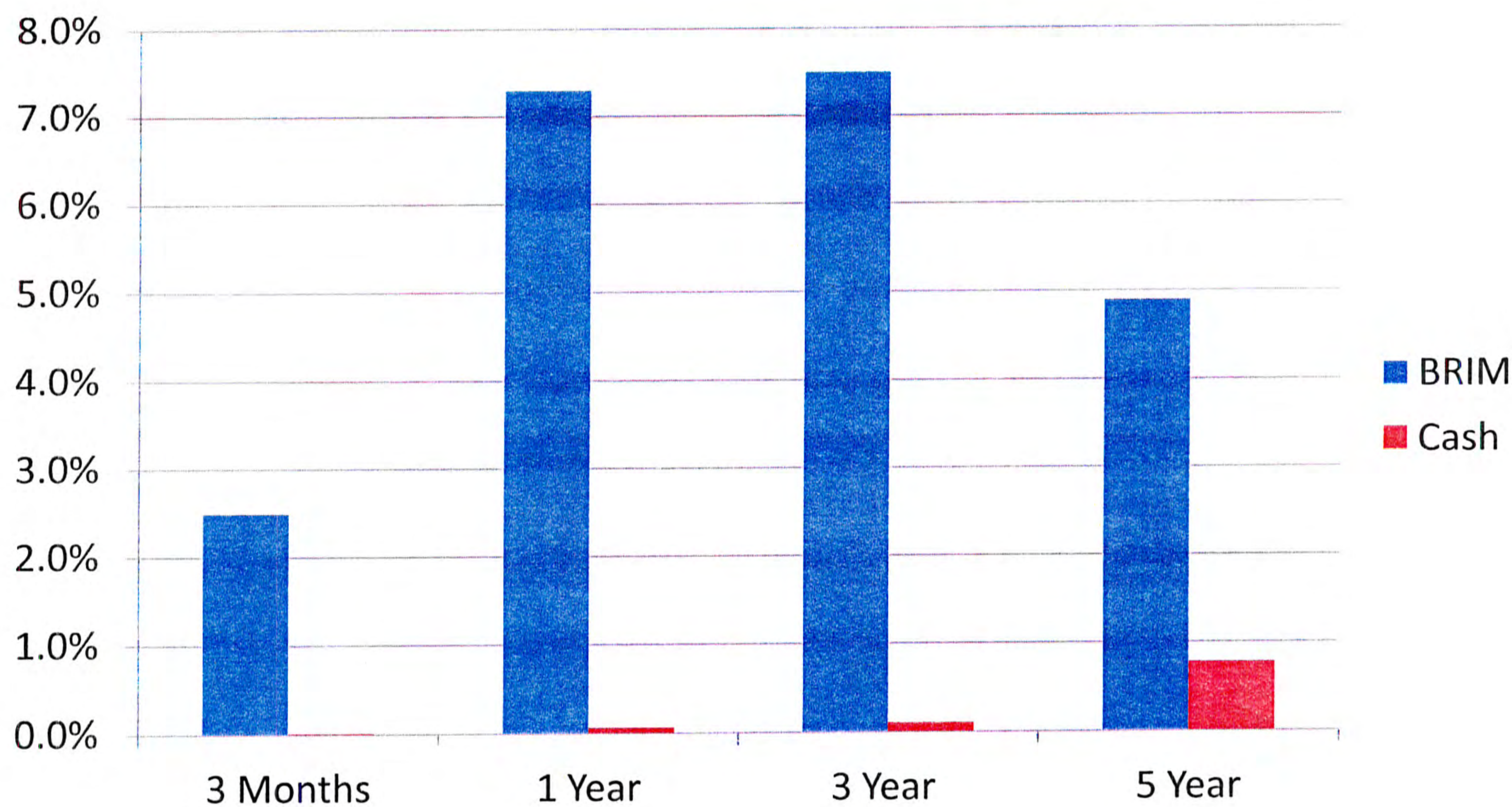


Asset Class Performance

October 31, 2012



Performance



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

Ross Taylor
Acting 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**

August 28, 2012

Chairman Lukens	Call to Order
Chairman Lukens	Approval of Board Minutes May 15, 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
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**

August 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 John Fernatt, IT Manager Melody Duke, Controller Jeremy Wolfe, Loss Control Manager Carl Baldwin, Loss Control Specialist Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Harry “Skip” Morris, Wells Fargo Insurance Services Charles Waugh, Chartis Joanna Valleau, Chartis
GUESTS:	Mike Gansor, WVU Risk Management Sandy Price, WVU Health Sciences Center Beth Hammers, MU School of Medicine Brian Carrico, MU School of Medicine Josh Dorsey, MU School of Medicine

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Lukens at 1:04 p.m. on Tuesday, August 28, 2012, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

At this point, Chairman Lukens announced that Marty Glasser had resigned from the Board. Expressing concern regarding having the necessary quorum for the meetings, Mr. Jones stated that he would, with the Board's permission, contact Dr. Robert Walker, Vice Chancellor of Health Sciences with the Higher Education Policy Commission, and the "ex-officio" Board member, about his future participation in the Board meetings.

APPROVAL OF MINUTES

Vice Chairman Martin moved the approval of the minutes of the February 28, 2012 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.

Referencing the Disaster Recovery and the Continuity of Operations (COOP) projects, Mr. Jones called upon John Fernatt and Chuck Mozingo, BRIM's Department of Administration COOP representatives, to give the Board an update. Much of the same information presented at the May meeting was reiterated; however, Mr. Fernatt noted that Sunguard, the vendor providing BRIM with the Living Disaster Recovery Planning System (LDRPS) software package, gave a demonstration of the process just last week, which was thereafter explained by Chuck Mozingo. Afterwards, Mr. Jones re-emphasized the importance of this project and stated that progress reports on this subject will be ongoing.

Mr. Jones then summarized the RFPs recently completed—auditing, actuarial services, building appraisal services, aviation, boiler and machinery and property inspection—and noted that the Medical Malpractice Risk Management Loss Prevention Consulting Services RFP was still in progress and that proposals are due September 17, 2012. Responses to the Request for Information regarding the Risk Management Information Systems are due on August 31st.

Mr. Jones discussed the storm damage resulting from the June 29, 2012 storm, noting that the estimated damage reserves to state properties and SB #3 properties is estimated to be around $3.34 million.

Other topics briefly touched upon include the appropriation request, Mr. Jones noting that BRIM will reduce its FY 2014 budget by 7.5%, as requested by the Department of Revenue; that incentives were given regarding privacy policies established by the Chief Privacy Office, thus resulting in premium credits for FY 2013, and that incentives will also be offered, with requirements increased, for the FY 2014 premium credits.

Mr. Schumacher was then asked to present the Chief Financial Officer's Report. The unaudited balance sheet as of June 30, 2012 and the unaudited income statement for the twelve months ending June 30, 2012 were received and filed.

A CD containing copies of the April, May, and June 2012 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the January, February and March 2012 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 1:56 p.m.

______________________________ ______________________________

Board Chairman Date

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

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Executive Director's Report

August 28, 2012

A. Marshall University and West Virginia University Medical Malpractice Program

- As of August 27, 2012, Marshall has deposited $7,814,808.33 into the (Treasury) escrow account. The year-to-date cumulative interest totals $122,983.05. There have been two disbursements totaling $76,632.74 during fiscal year 2013 thus far.

- As of August 27, 2012, a total of $16,254,529.45 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $126,888.95. There have been two disbursements totaling $530,690.34 during fiscal year 2013 thus far.

B. State Agency/Senate Bill #3 Litigation

In July 2012, one case was tried to a defense verdict. Year-to-date, two cases have been tried to defense verdicts. New lawsuits have increased 12.4% over year-to-date 2011. At this time last year, we had received 202 new suits as compared to 227 new suits this year. Closed lawsuits have decreased 35.1%, and pending lawsuits have increased 0.9%. Prior year-to-date pending suits totaled 644, while current pending suits amount to 650.

C. Disaster Recovery/Business Continuity

BRIM is working with the Office of Technology using software we have purchased to assist the Department of Administration agencies and ultimately all state agencies in disaster recovery preparedness and formulating each agency's written business continuity plan. This initiative is being championed by John Fernatt and Chuck Mozingo using the Living Disaster Recovery Planning System (LDRPS) software package.

In this regard, an LDRPS demonstration was conducted at the Cultural Center on Thursday, August 23rd, from 9 a.m. to 12 noon. Afterwards, Steve Phillips of Sunguard met with BRIM personnel, Chuck Jones, Chuck Mozingo, Robert Fisher, Steve Schumacher and John Fernatt to discuss licensure needs.

The Goals/Objectives of the LDRPS project is to provide a risk management framework to assist in supporting and preparing for the continuity of the Department of Administration during extraordinary circumstances.

1. Integrate a software-based management tool to assist with the continuity of operations plan (COOP) program by the end of FY 2015.

2. Assist with conducting a COOP training exercise specific to the Department of Administration by the end of FY 2013.

Additionally, a webinar hosted by the Sunguard company is scheduled for September 13 to provide further training.

D. Requests for Proposals

1. Auditing – Awarded to Ernst & Young – provide year-end audit in accordance with Government Auditing Standards for fiscal year ending June 30, 2013. (maximum of 2 one-year renewals)

2. Actuarial Services - Awarded to AON – effective July 1, 2012 – to provide actuarial and rating services for fiscal year ending June 30, 2013. (option of providing service for two subsequent fiscal years)

3. Underwriting

   a. Building Appraisal Services – American Appraisal Service

   b. Aviation – Hoxton Insurance Agency

4. Loss Control

   a. Boiler and Machinery – Awarded to Hartford – July 1, 2012 – June 30, 2013

   b. Property Inspection – Awarded to AON

   c. Medical Malpractice Risk Management – in progress – Medical Malpractice Risk Management Loss Prevention Consulting Services
   RFP# 080112 – Purchase medical malpractice risk management loss prevention consulting services. Bids/Proposals are due by 3:00 p.m. on September 17, 2012.

   Request for Information – Risk Management Informaton Systems (RMIS) – Procure one system to meet all of its insurance-related RMIS needs. Responses are due by 3:00 p.m. on August 31, 2012.

E. STRIMA

Robert Fisher, John Fernatt, Chuck Mozingo, Steve Schumacher and I will be attending the annual STRIMA Conference next month from September 16-20, 2012 in Austin, Texas.

F. Storm Damage

There is estimated damage reserves to state properties and Senate Bill #3 properties as a result of the 6/29 storm in the amount of $3.34 million. There are 75 State agencies and Senate Bill #3 agencies with storm damage. We have met with Homeland Security Director Jimmy Gianato and Department of Administration Acting Secretary Ross Taylor to coordinate discussions with the Federal Emergency Management Association (FEMA). BRIM has contract coverage with a commercial carrier, and much of the storm damage may be covered through our carrier. However, Homeland Security and many of the agencies are working directly with the FEMA to determine what is covered with FEMA, applicable reimbursements, etc. Our objective is to prevent a redundancy of duplicate payments (insurance and FEMA) to agencies and also avoid an audit by FEMA as to payments made by FEMA to agencies who have insurance coverage.

G. Appropriation Request

1. The FY 2014 appropriation request reduction from the Department of Revenue speaks of requests at 92.5% (7.5% reduction) of FY 2013 General Revenue base budget.

2. BRIM does not receive a General Revenue appropriation;

3. However, in order to facilitate preparation of an Executive balanced budget, BRIM will voluntarily reduce its FY 2014 budget by 7.5%.

H. State Agency Premiums for FY 2014

1. BRIM has undertaken conservative efforts with available assets to limit an overall increase in state agency premiums to 2-3%.

2. An individual agency (dependent upon individual losses) may have an increase greater than 2-3%; however, the state premiums as a whole will not exceed 2-3%.

I. Agent Commission

Agent commission checks amounting to approximately $1.02 million were mailed August 15, 2012. This is a decrease in the amount over the last several years by approximately $800,000.

J. Privacy Certification Credit

In October 2011, BRIM partnered with the Chief Privacy Office to provide an incentive for agencies to: (a) adopt privacy policies; (b) assure that all existing employees have privacy training; (c) assure that all laptops with PII and PHI have been encrypted or are scheduled for encryption; and (d) assure that self assessment for two of the ten core principles have been completed.

BRIM provided premium credits for the FY 2013 premiums to those agencies that met all of the requirements stipulated. The credit amounted to a maximum of 2% of the general liability premium with a maximum of $10,000 credit per agency.

BRIM will again partner with the Chief Privacy Office to provide a credit to agencies for the FY 2014 premiums. Requirements to achieve the credit have been increased.

Respectfully submitted,

Charles E. Jones, Jr.
Executive Director

CEJ:lld

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

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Governor

Ross Taylor
Acting Cabinet Secretary

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Executive Director
charles.e.jones@wv.gov

Chief Financial Officer's Report
August 28, 2012

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of April, May and June, 2012. These totals are:

April	$12,306.45
May	$84,135.68
June	$48,996.55

B. Financial Report

- The results presented for the fiscal year ended June 30, 2012 are draft and subject to year-end reserve adjustments based on the year-end actuarial review. AON's risk funding study as of June 30, 2012 will be completed in early September.
- AON's risk funding study will be reviewed by Ernst & Young as part of their normal year-end audit work. The FY'12 external audit will be completed by Ernst & Young by mid-October.
- The operating loss reported for FY'12 is $8.2 million vs. $8.8 million in operating income for FY'11. Last year's claims expense was favorably impacted by the reduction in prior years' claims reserves by $9.2 million. Conversely, this year's results reflect adverse claims development that increased claims expense by $7.4 million. This year over year divergence in reserve development trends is the reason for the difference in the FY'12 and FY'11 operating results.
- The overall return on funds invested was lower for the current year. The lower interest rate environment reduced investment earnings for the current year and also decreased the year over year net income by $5.5 million.

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, 2011. This is GFOA's highest form of recognition in governmental accounting and financial reporting and represents the 17th consecutive year that BRIM has attained this significant accomplishment.

D. AIG Update

- On August 2nd, AIG reported second quarter net income of $2.3 billion compared to $1.8 billion for the same quarter a year ago.
- On August 6th, the Treasury announced that it had sold additional AIG stock for about $5.0 billion, further reducing the government's ownership in AIG from 61% down to 53%. This makes the fourth time that the Treasury has sold AIG stock. At its peak, the Treasury owned 92% of AIG's common stock as a result of the government bailout in 2008.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	June 30	
	2012	**2011**
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 25,568	$ 23,231
Advance Deposit with Carrier/Trustee	200,949	189,211
Receivables - Net	953	1,155
Prepaid Insurance	22	38
Total Short Term Assets	227,492	213,635
Long Term Assets		
Investments	138,146	140,522
Total Long Term Assets	138,146	140,522
TOTAL ASSETS	365,638	354,157
LIABILITIES		
Short Term Liabilities		
Accounts payable	221	552
Claims Payable	8	101
OPEB Liability	182	182
Agents Commissions Payable	1,174	1,097
Unearned Revenue	5,494	6,095
Current Estimated Claim Reserve	49,438	43,259
Total Short Term Liabilities	56,517	51,286
Long Term Liabilities		
Compensated Absences	75	75
Estimated Noncurrent Claim Reserve	84,157	82,968
Total Long Term Liabilities	84,232	83,043
TOTAL LIABILITIES	140,749	134,329
Prior Year Net Assets	219,828	192,207
Current Year Earnings (Deficiency)	5,061	27,621
TOTAL NET ASSETS	224,889	219,828
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 365,638	$ 354,157

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

	June 30	
	2012	**2011**
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 51,045	$ 52,538
Less - Excess Insurance	(5,386)	(6,075)
Total Operating Revenues	45,659	46,463
Operating Expenses		
Claims Expense	45,053	29,229
Property & MS Claims Expense	4,992	4,369
Personal Services	1,379	1,550
General & Administrative Expense	2,471	2,476
Total Operating Expenses	53,895	37,624
Operating Income (Loss)	(8,236)	8,839
Nonoperating Revenues		
Investment Income	13,297	18,782
Total Nonoperating Revenues	13,297	18,782
Net Income (Loss)	$ 5,061	$ 27,621

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LOSS CONTROL REPORT TO THE BOARD
AUGUST 2012

For the first time in several years, we have a new vendor for our Boiler and Machinery coverage. The successful bidder was Hartford Steam Boiler, who had the account prior to Chubb. Chubb has been very professional during the transition, and I expect we'll see a bid submitted for them in the future.

Jeremy Wolfe is traveling to Hartford's office in Pennsylvania to meet with their folks regarding inspection scheduling and to discuss the boiler safety and operational seminars which will be held later this fall.

We have issued a Request for Proposals for medical malpractice loss prevention consulting services, which will be due early next month. The period for vendors to submit questions ended on Friday and if the number of questions is any indication of the number of submissions we will receive, we should have several to choose from.

In spite of our short-staffing situation, we are planning on offering OSHA 10 Hour General Industry training to various insured beginning this fall. Our Loss Control technical staff underwent training over the last year or so to enable BRIM to offer these services. Hopefully, this will lead us one step closer toward a safe workplace environment.

As is our late summer custom, we are currently evaluating the loss control questionnaire submissions for our state agencies. The results will be used to calculate loss control credits and surcharges for the next fiscal year's premium.

During the months of May, June, July and August, Aon conducted 300 inspections and Chubb Conducted 1,283. The reports are being processed according to established procedures.

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

5 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.

19 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.

6 Presentation Visits

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

6 Continuing Education Visits

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

Dated: August 27, 2012

Respectfully submitted,

Robert A Fisher

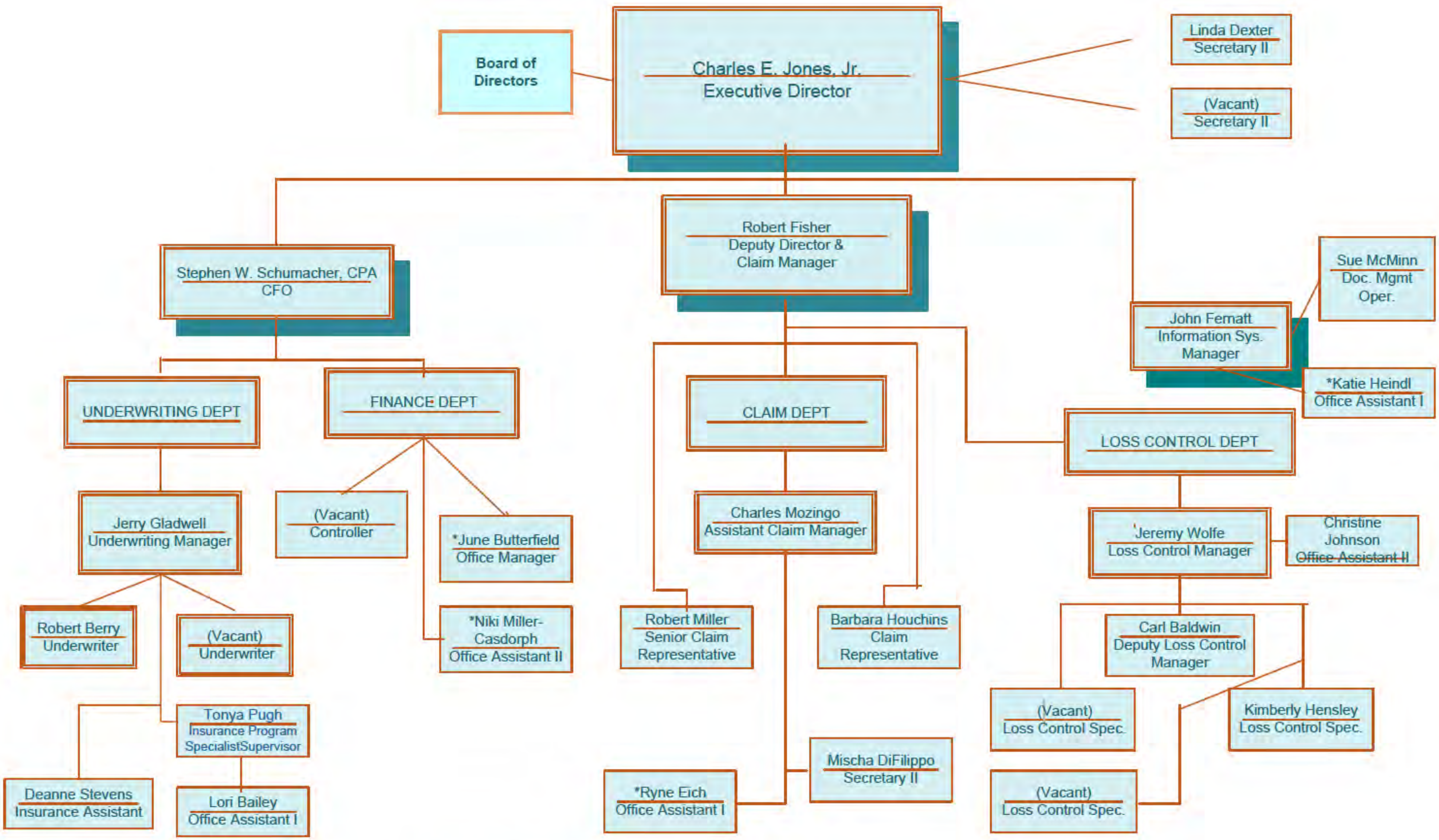
Robert A. Fisher
Deputy Director and Claim Manager

Earl Ray Tomblin
Governor
State of West Virginia

BOARD OF RISK AND INSURANCE MANAGEMENT

As of June 30, 2013

Ross Taylor, Cabinet Secretary
Department of Administration



*indicates temporary employment