State of West Virginia

Board of Risk and Insurance Management

2014 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

August 29, 2014

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, 2014 is hereby respectfully submitted. This report was prepared by the staff of BRIM. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation rests with the management of BRIM. We believe the data, as presented, is accurate and that it is presented in a manner designed to fairly set forth the results of the operations of BRIM. All information necessary to enable the reader to gain an understanding of BRIM's operational activities has been included.

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

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

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

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

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

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

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

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

BRIM currently insures approximately 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.

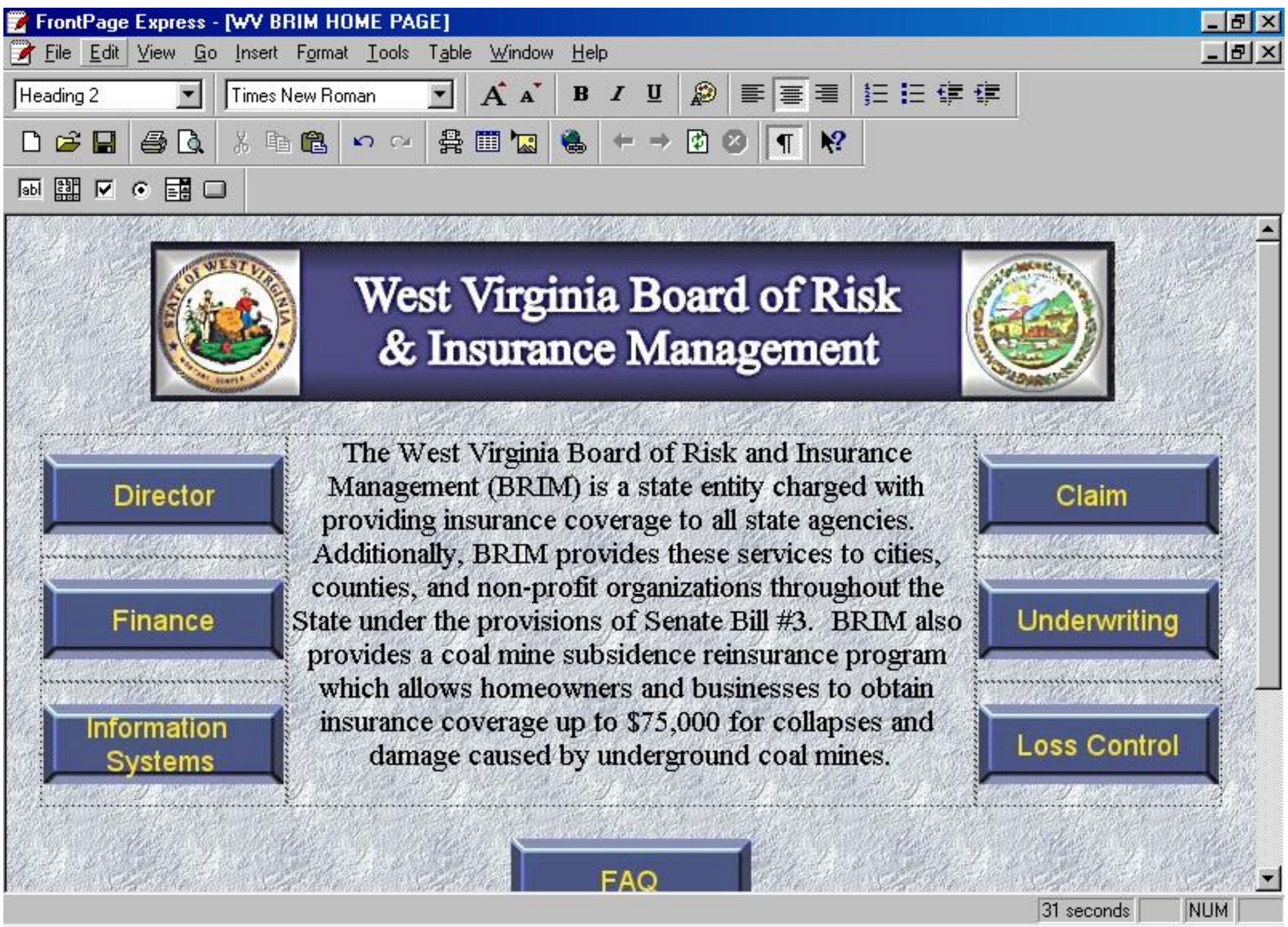
Internal controls have been put in place to ensure the assets and property of BRIM are protected from theft, loss or misuse and to provide adequate accounting data for preparing Generally Accepted Accounting Principles (GAAP) based financial statements.

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.



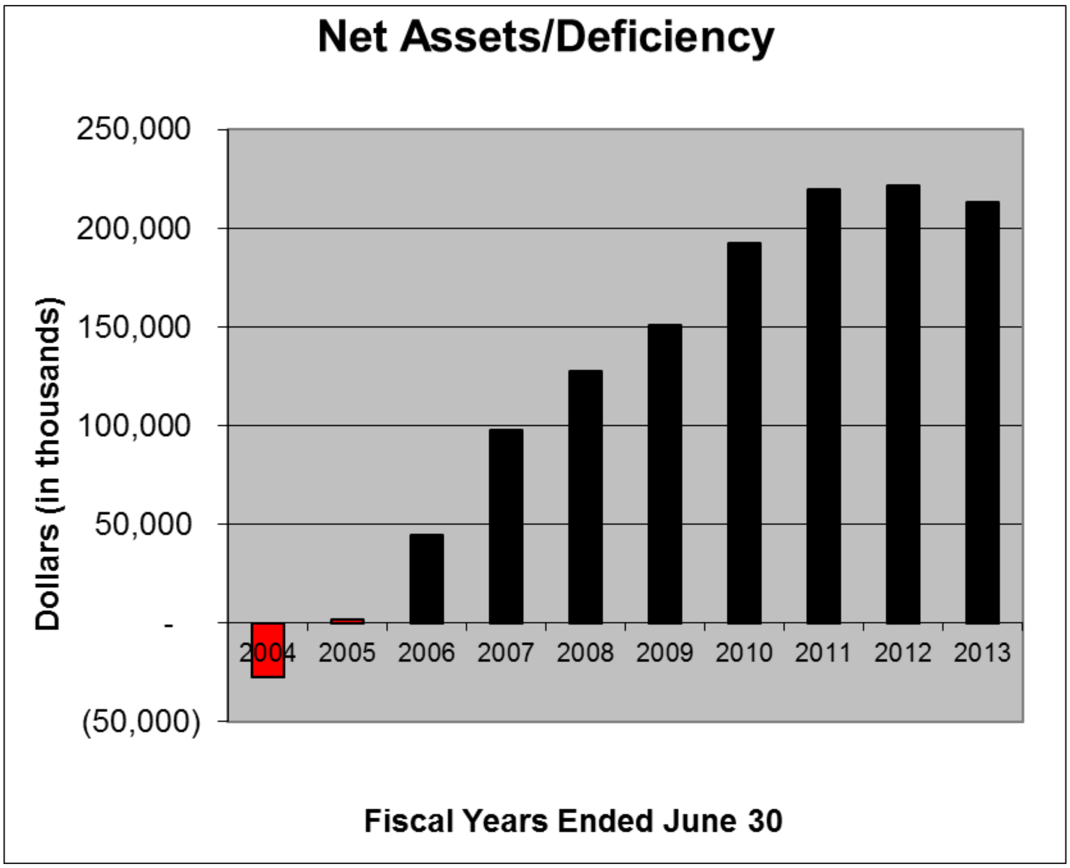
Results of Operations

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

	2010	2011	2012	2013
		(In thousands)		
Operating Revenues:				
Premiums	$58,007	$52,538	$51,046	$47,134
Less Excess Coverages	(6,257)	(6,075)	(5,386)	(5,825)
Net Operating Revenues	51,750	46,463	45,660	41,309
Operating Expenses:				
Claims & Claims Adjustment	31,668	33,598	53,396	54,018
General Administrative	3,946	4,026	3,892	3,275
Total Operating Expenses	35,614	37,624	57,288	57,293
Operating Income (Loss)	16,136	8,839	(11,628)	(15,984)
Non-Operating Revenues:				
Interest Income, Appropriations	25,113	18,782	13,315	7,835
Net Income	41,249	27,621	1,687	(8,149)
Retained earnings at beginning of year	150,958	192,207	219,828	221,515
Retained earnings at end of year	$192,207	$219,828	$221,515	$213,366

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 maintain positive retained earnings from 2005 thru 2013. 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, 2014. The June 30, 2014 report will be available near the end of October 2014.

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, 2013, 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, 2014. The CAFR for fiscal year 2014 will be issued before December 31, 2014. 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 2014

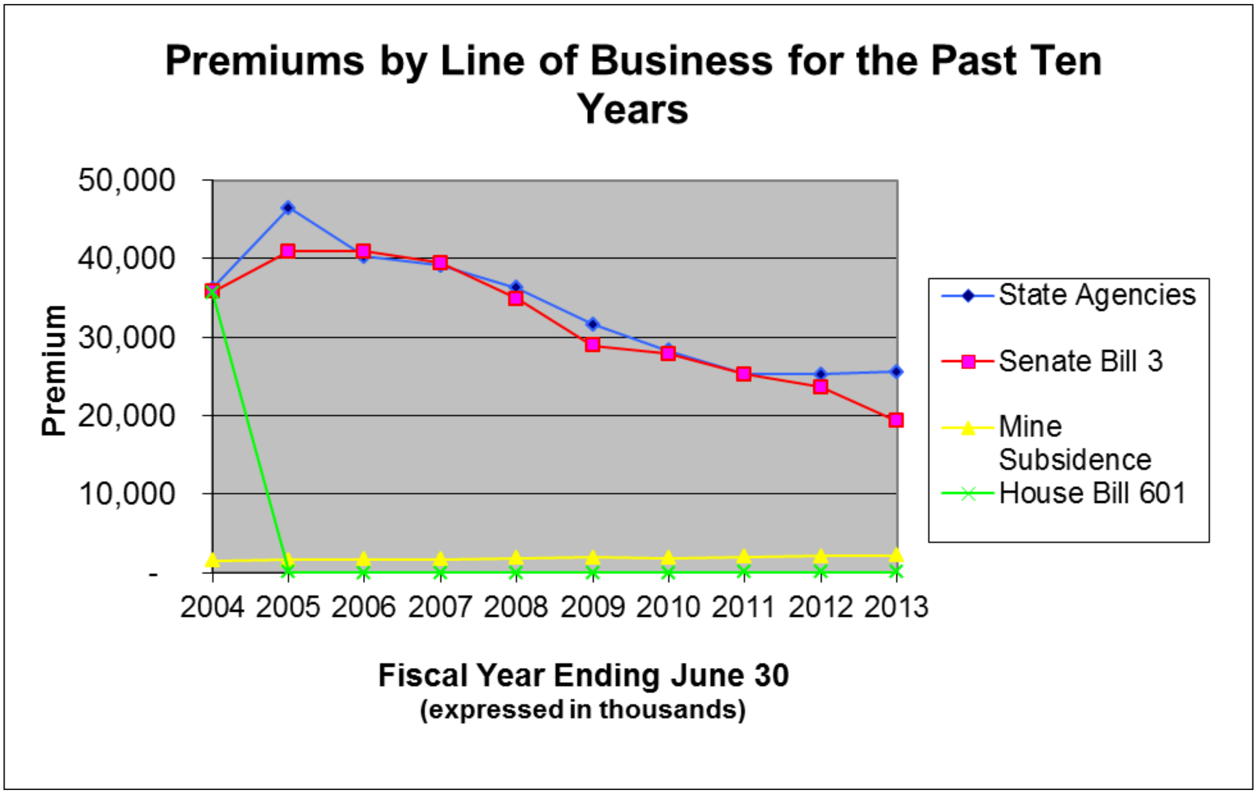
	LIABILITY	LIMIT OF LIABILITY
1.	Automobile Liability Policy No. CA 519-64-62 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
2.	General Liability Policy No. GL 509-47-07 Company: National Union Fire Insurance Co.	$ 1,000,000 per occurrence
3.	Aircraft Liability Policy No. AV003380147-11 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

	PROPERTY	LIMIT OF LIABILITY
1.	Blanket Property Policy No. MAF760728-13 Company: Axis Insurance Company	$ 25,000,000 primary layer $ 1,000,000 deductible
	Policy No. NHD382615 Company: RSUI	$ 100,000,000 in excess of 25,000,000
	Policy No.: YSP6157 Company: Atlantic Specialty	$ 75,000,000 in excess of $ 125,000,000
	Policy No.: MAF733355-13 Company: Axis Insurance Company	$ 200,000,000 in excess of $ 200,000,000
	Policy No. MAF760729-13 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. 105609315 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 2013	
1	West Virginia State Police	$4,995,434
2	Division of Highways	4,063,236
3	Department of Health & Human Resources	2,607,439
4	West Virginia University	2,053,996
5	Corrections Division	840,154
6	Marshall University	690,886
7	Regional Jail and Corrections Facility Authority	460,471
8	West Virginia Parkways Authority	393,855
9	West Virginia State Parks	379,765
10	General Services	357,227
	Total Top Ten	**$16,842,463**
	Total State Premium Billing for 2013	**$25,606,800**
	% of top 10 in relation to all state agency billings	**65.77%**

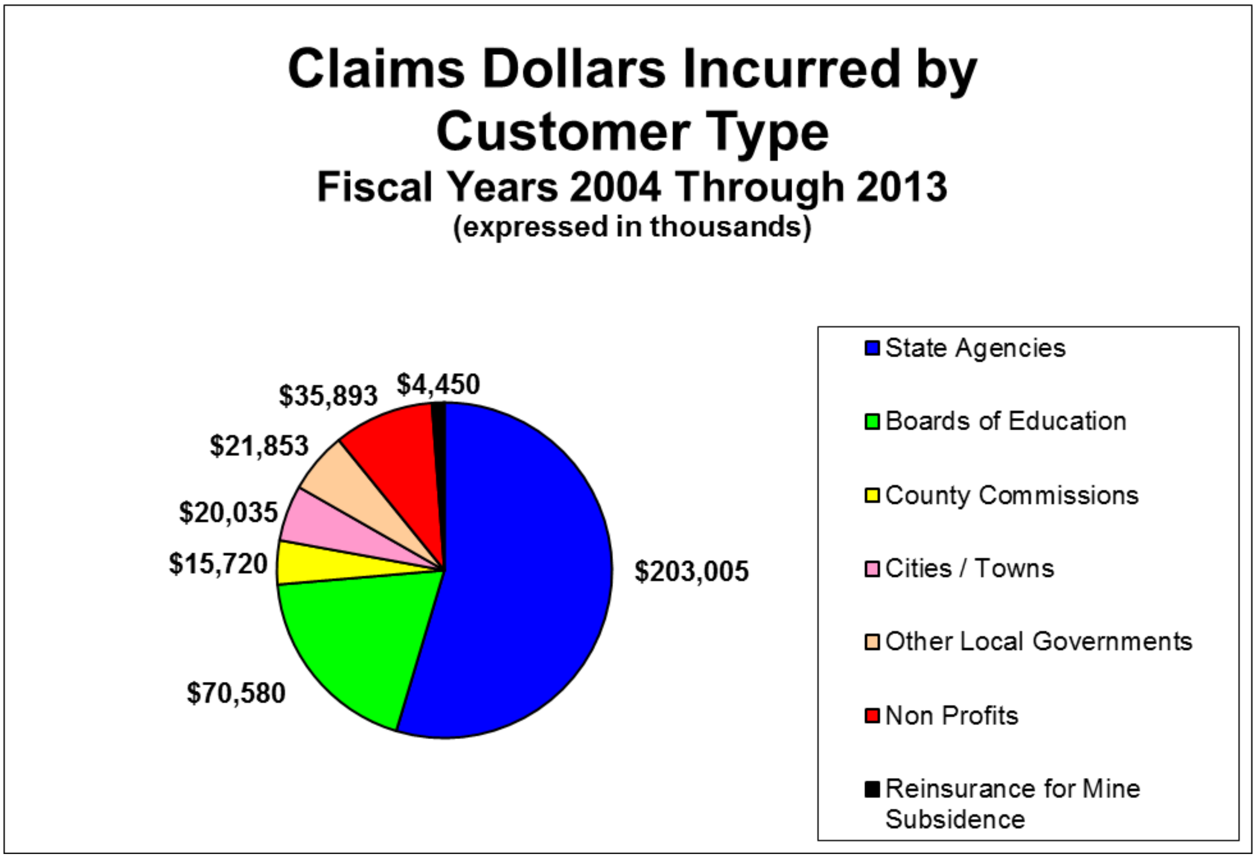
	Top 20 SB 3 Premiums for Fiscal Year 2013	
1	Kanawha County Board of Education	$1,321,094
2	Raleigh County Board of Education	608,513
3	Berkeley County Board of Education	501,231
4	Harrison County Board of Education	402,590
5	West Virginia University Medical Corporation	391,074
6	City of St. Albans	385,285
7	Putnam County Board of Education	380,023
8	Wayne County Board of Education	364,903
9	Mercer County Board of Education	361,520
10	Mingo County Board of Education	342,812
11	Cabell County Board of Education	313,525
12	Monongalia County Board of Education	303,953
13	Marion County Board of Education	302,117
14	Logan County Board of Education	294,789
15	Jefferson County Board of Education	280,492
16	Wood County Board of Education	276,851
17	Ohio County Board of Education	257,269
18	Fayette County Board of Education	230,983
19	Mason County Board of Education	225,740
20	McDowell County Board of Education	221,326
	Total Top Twenty	**$7,766,090**
	Total SB 3 Premium Billing for 2013	**$19,345,012**
	% of top 20 in relation to total SB 3 billings	**40.15%**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
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
2013	$ 25,607	$ 19,345	$ 2,142	$ 40

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

June 24, 2014

Chairman Martin	Call to Order
Chairman Martin	Approval of Board Minutes March 28, 2014
Chairman Martin	Introduction of New Board Members Edward Magee, Ed.D., CPA Bob Mitts, CPCU Jim Wilson, Esquire

REPORTS

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

UNFINISHED BUSINESS

NEW BUSINESS

Election of Vice Chairman

ADJOURNMENT

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

June 24, 2014

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman Edward Magee, Ed.D., CPA, Member Bob Mitts, CPCU, Member James M. Wilson, Esquire, Member
BRIM PERSONNEL:	Charles E. Jones, Jr., Executive Director Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Bob Berry, Underwriter Stephen M. Fowler, Esq., BRIM Counsel Jeremy Wolfe, Loss Control Manager Stephen Panaro, Controller Jeff Lawrentz, Underwriter Ashlyn Harlan, Loss Control Specialist Robert Miller, Claim Representative Linda Dexter, Recording Secretary
INSURANCE COMMISSION REPRESENTATIVE:	Tonya Gillespie, CPA, Assistant Insurance Commissioner (serving as a representative for the Board Secretary)
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Bob Ayers, USI Insurance Services Brenda Samples, USI Insurance Services
GUESTS:	Travis M. Bailey, Marshall University
GUESTS (cont'd):	Brian Gallagher, Marshall Health

Tracy Smith, Marshall University
Sandy Price, WVU Health Sciences Center
Michael J. Gansor, WVU Risk Management
Kelsey Richards, WVU Risk Management

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:03 p.m. on Tuesday, June 24, 2014, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

INTRODUCTION OF NEW BOARD MEMBERS

Before proceeding, Chairman Martin introduced and welcomed Dr. Edward Magee of the Higher Education Policy Commission; Jim Wilson, an attorney from the Clarksburg area and retired from the law firm of Steptoe and Johnson, and Bob Mitts, CPCU, retiring in 2007 from BRIM, after having served as the Underwriting Manager for several years.

APPROVAL OF MINUTES

Mr. Mitts moved the approval of the minutes of the March 28, 2014 Board Meeting. The motion was seconded by Mr. Wilson. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

Executive Director's Report

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

For the benefit of the new board members, Mr. Jones began his report by giving some background information about BRIM and the agency's primary responsibilities in providing liability and property coverage for all state agencies, as well as those in the Senate Bill #3 program and the boards of education. He also reviewed BRIM's organizational composition and each department's main function(s).

Mr. Jones also introduced the managerial staff in attendance and recognized those employees working for the department managers in the various areas.

Since most of the spectators at the meeting represent a good cross section of the entities with which we conduct business, Chairman Martin requested that they, too, introduce themselves on behalf of their entities.

Continuing with his report, Mr. Jones thereafter explained the organizational chart, COOP Call Tree and employee roster, which were attached to his report.
He also displayed a copy of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2013 and suggested that the new board members access BRIM's website, where they could review various types of information, including the CAFR.

Regarding cyber liability coverage, which has been in the forefront of the agency's implementation goals, Mr. Jones noted that after coverage is in fact obtained, the biggest challenge will be developing evaluation criteria that equitably assesses state agencies for premium calculation.

Other topics briefly touched upon include privacy self-assessment, the Government Finance Officers Association (GFOA) Certificate of Achievement awarded to BRIM for the 19th consecutive year, and our driver training program.

In closing, Mr. Jones announced that the National Safety Council (NSC) has chosen BRIM as a Defensive Driving Course Award Recipient, and we will be recognized for "Best Performance" in Defensive Driving Training at the NSC's 2014 Annual Conference in San Diego, California.

BRIM Financial Report

There being no questions for Mr. Jones, Chairman Martin called upon Mr. Schumacher to present his Chief Financial Officer's Report. The unaudited balance sheet as of April 30, 2014 and the unaudited income statement for the ten months ending April 30, 2014 were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the March and April 2014 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the October, November and December 2013, and the January and February 2014 billings. The acknowledgement form is retained by the Finance Department.

In closing, Mr. Schumacher explained that the state has a system that everybody uses called FIMS, which is basically a cash receipts and disbursements system. It is an old mainframe system, and in July we are migrating to a network state-of-the- art system called OASIS. There is going to be a two-week period when we cannot enter transactions, so we are going to have a backlog of transactions. We are also going to be learning the new system as we go, although there has been some training provided.

Loss Control Report

There being no questions for Mr. Schumacher, Mr. Fisher presented the Loss Control Report, which was received and filed, a copy of which is attached and made a part of the record.

During his presentation, Mr. Fisher explained the basic operational functions of the Claim and Loss Control Departments for the benefit of the new board members.

There were no questions for Mr. Fisher.

UNFINISHED BUSINESS

None.

NEW BUSINESS

Chairman Martin announced that the election of a vice chairman would be tabled until the remaining new member is chosen and in attendance; therefore, this issue is tabled.

By executive order, Chairman Martin declared that the board members did not have to wear a tie as part of the dress code at board meetings, and that the dress code would be "regular business casual."

AD**JOURNMENT**

There being nothing further, Mr. Wilson moved that the meeting adjourn. The motion was seconded by Mr. Mitts. There being no discussion, a vote was taken and the MOTION ADOPTED.

The meeting adjourned at 2:04 p.m.

Board Chairman	Date

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Executive Director's Report

June 24, 2014

A. Background of BRIM

1. Composed of Director's Office and Claim, Finance, Underwriting, Information Systems, and Loss Control Departments.
2. Departmental Responsibilities:
   - Underwriting: The primary function of the Underwriting Department is premium calculation.
   - Finance: The primary function of the Finance Department is accounts payable and receivable and accurately reporting the financial condition of the entire BRIM agency.
   - Claim: There are many claims alleged against state agency and SB#3 entities. The Claim Department supervises the investigation and adjudication of all alleged claims.
   - Information Systems: Primarily, the Information Systems Department works in conjunction with the Office of Technology to ensure our computer systems are functioning properly.
   - Loss Control: The Loss Control Department meets with insured entities and discusses claim history and then educates them in order to prevent or minimize the opportunity for losses to occur.

3. BRIM is primarily responsible for providing liability and property coverage for all state agencies. At this time, there are 167 state agencies including the Department of Agriculture, Department of Health and Human Resources, the Department of Public Safety, Department of Highways, and the Institutions of Higher Learning to name a few. All are insureds under the BRIM policy and enjoy $1 million per occurrence liability coverage.

   BRIM also provides liability and property coverage for approximately 924 entities in the Senate Bill #3 program. The SB#3 program came about in 1986 when commercial carriers would not write coverage for many nonprofits. BRIM was called upon to write coverage for these displaced entities. Some of the entities include: various non-profit organizations; cities and towns, and boards of education. The boards of education are required by statute to have excess coverage in the amount of $6million per occurrence.

B. Marshall University and West Virginia University Medical Malpractice Program

- As of June 20, 2014, Marshall has deposited $1,400,000.00 into the escrow account. The year-to-date cumulative interest totals $126,831.73. During FY 2014, disbursements totaling $1,621,724.36 have been paid thus far.

- As of June 20, 2014, a total of $4,307,744.45 has been transferred or deposited into WVU's escrow account. The year-to-date cumulative interest totals $133,564.48. During FY 2014, disbursements totaling $4,881,400.77 have been paid thus far.

C. State Agency/Senate Bill #3 Litigation

Verdicts were rendered in five cases in 2014 to date. One was a directed verdict in favor of the defense; three were defense verdicts and one was a plaintiff's verdict, with the verdict both less than the demand and less than the last offer.

In 2014, 91 new litigated cases were received vs. 96 cases PYTD; 202 litigated cases were closed vs. 212 PYTD. There are currently 648 pending litigated cases, which is 55% of the total pending cases.

D. Joint Committee on Government and Finance (JCGF)

On Wednesday, June 18, 2014, we attended the legislative interim committee meeting of the Joint Committee on Government and Finance. Cabinet Secretary Ross Taylor presented to the committee Department of Administration reports on PEIA, CHIP, Real Estate, and BRIM. The BRIM report provided legislators with interim draft financial statements. There were no questions of BRIM posed by the Committee.

E. RFP for Broker Services for the Purchase of Cyber Liability Insurance Coverage

Research has indicated that many governmental organizations are targets of cyber-criminal activity; and because of our vast use of electronics, it is highly likely that a breach will occur.

Aware of this increasing threat, BRIM, the Office of Technology and the Privacy Office are working collaboratively to provide cyber security insurance for all state agencies. Current BRIM insurance policies provide little or no cyber coverage.

In response to the RFP, five submissions for broker services for cyber liability insurance coverage were received, and the evaluation team selected Arthur J. Gallagher Risk Management Services, Inc. as the Broker to assist BRIM in selecting a carrier for acquiring cyber security coverage for West Virginia.

BRIM will absorb the cost for coverage beginning July 1, 2014 for FY 2015, and we will communicate to agencies what the coverage will cost for FY 2016.

Our objective is to provide cyber coverage for all state agencies starting July 1, 2014. However, we have been advised by our broker that carriers have indicated July 31, 2014 is a more realistic date for coverage to begin.

Additionally, the biggest challenge once coverage is obtained is developing evaluation criteria that equitably assesses state agencies for premium calculation. Evaluation of agencies' adherence to established policies and procedures developed to protect personally identifiable information collected, used, stored and disposed of by state agencies is our challenge.

F. Privacy Self-Assessment

On June 12, 2014, letters were sent to all non-executive agencies offering them an opportunity to obtain a reduction in the amount of premiums their organizations pay by choosing to participate in a self-assessment of privacy principles. The final day to complete the self-assessment is November 17, 2014. The completed and signed certification letter must be received at the Privacy Office by November 21, 2014.

G. wvOASIS

The mission of this program for the State is to provide the software and technology (enterprise resource planning (ERP)) for gaining operational efficiencies and seamless integration across administrative business functions. This will be accomplished by transforming the State's management of financial, human resources, procurement, and other business processes.

H. Request for Proposal – Independent Claim Adjustment Services

I. Expressions of Interest to Provide BRIM Engineering and/or Geotechnical Services Submission deadline – 5/19/14 at 2:00 p.m.

J. Miscellaneous.

1. GFOA Recognition – 4/3 – Governor's Reception Room

   The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to BRIM for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2013. BRIM has received this prestigious award for 19 consecutive years.

2. Driver Training

   Since the beginning of this training, over 22,300 State and County Board of Education drivers have completed the on-line defensive driver training program. Subsequent to completion, credits or surcharges will be applied to FY 2016 auto premiums based on the level of participation for each state agency and county BOE.

The National Safety Council (NSC) has chosen our agency as a Defensive Driving Course Award Recipient for our training efforts. We will be recognized at the NSC's 2014 Annual Conference in San Diego, California for "Best Performance" in Defensive Driver Training.

Respectfully submitted,

C.E. Jones Jr

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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Earl Ray Tomblin
Governor

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

Ross Taylor
Cabinet Secretary

Chief Financial Officer's Report
June 24, 2014

A. P-Card Report

- CD copies contain the supporting detail for P-card purchases for the months of March and April 2014. These totals are:

March	$44,673.75
April	$40,791.16

B. Financial Report

- The financial results presented are for the ten months ended April 30, 2014 and reflect the actuarially estimated unpaid losses per AON's risk funding study as of March 31, 2014 plus all claims payments made thru April 30, 2014.
- Total premium revenue is lower in both years. Total premiums billed reflect prior period reserve reductions that were passed on to insureds in reduced rates, decreasing total premium revenue.
- Operating results for the nine months of FY'14 reflect the impact of claims reserves increasing by $7.2 million during the current fiscal year vs. a $9.2 million increase for the same period last year. Net claims payment activity in 2014 also increased claims expenses by an additional $5.5 million in 2014 vs. the prior year. Property claims expense is down in 2014, primarily as a result of the "derecho" wind event that increased property claims payments made in 2013.
- The effect of reserve increases in combination with the lower premiums billed is responsible for the negative operating results for both fiscal years.
- The low interest rate environment continues to hamper investment returns as almost of the funds being held within the trust to pay claims are invested in U.S. Treasuries and other government-backed securities. BRIM's limited exposure to equities in the funds invested with the WVIMB continues to help bolster BRIM's overall current year returns even though this year's earnings are $2.7 million less than for the same period last year.

C. FY'15 Projected Premiums

- The combined rate increase for both the State and SB3 programs for FY'15 will provide additional premium revenue for next year of approximately $8.5 million. The increase is the combination of higher actuarial losses projected for next year and less savings realized from prior year reserve reductions to offset rate increases when compared to FY'14. With the savings included, FY'15 rates are actually 16% lower than what they would have been using the rating model.

Respectfully submitted,

Stephen W. Schumacher, CPA
Chief Financial Officer

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	April 30 2014	April 30 2013
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 15,744	$ 21,005
Advance Deposit with Carrier/Trustee	213,161	209,776
Receivables - Net	5,625	2,583
Prepaid Insurance	984	977
Total Short Term Assets	235,514	234,341
Long Term Assets		
Investments	143,857	143,438
Total Long Term Assets	143,857	143,438
TOTAL ASSETS	379,371	377,779
LIABILITIES		
Short Term Liabilities		
Accounts payable	5,900	2,098
Claims Payable	71	99
OPEB Liability	372	374
Agents Commissions Payable	767	855
Unearned Revenue	9,582	8,465
Current Estimated Claim Reserve	49,793	50,751
Total Short Term Liabilities	66,485	62,642
Long Term Liabilities		
Compensated Absences	64	67
Estimated Noncurrent Claim Reserve	100,949	95,398
Total Long Term Liabilities	101,013	95,465
TOTAL LIABILITIES	167,498	158,107
Prior Year Net Assets		
Restricted - HB601 and Mine Subsidence	49,372	45,599
Unrestricted	163,994	175,916
Total Prior Year Net Assets	213,366	221,515
Current Year Earnings (Deficiency)		
Restricted - HB601 and Mine Subsidence	689	2,878
Unrestricted	(2,182)	(4,721)
Total Current Year Earnings (Deficiency)	(1,493)	(1,843)
Total Net Assets		
Restricted - HB601 and Mine Subsidence	50,061	48,477
Unrestricted	161,812	171,195
TOTAL NET ASSETS	211,873	219,672
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 379,371	$ 377,779

DRAFT - Unaudited - Management Purposes Only

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

	April 30 2014	April 30 2013
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 44,516	$ 40,199
Less - Excess Insurance	(5,118)	(4,854)
Total Operating Revenues	39,398	35,345
Operating Expenses		
Claims Expense	47,495	43,992
Property & MS Claims Expense	2,589	5,420
Personal Services	1,169	1,090
General & Administrative Expense	2,114	1,922
Total Operating Expenses	53,367	52,424
Operating Income (Loss)	(13,969)	(17,079)
Nonoperating Revenues		
Investment Income	12,476	15,236
Total Nonoperating Revenues	12,476	15,236
Net Income (Loss)	$ (1,493)	$ (1,843)

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
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Ross Taylor
Cabinet Secretary

Loss Control Report to the Board
June 2014

Since February, well over 22,300 State and County Board of Education drivers have completed the on-line defensive driver training program that we are requiring through the National Safety Council. The deadline for completion of this training program is August 1, 2014. Credits or surcharges will be applied to fiscal year 2016 automobile premium based on the level of participation by each state agency and county Board of Education.

The National Safety Council (NSC) has chosen our agency as a Defensive Driving Course Award Recipient for our training efforts. We will be recognized at the NSC's 2014 annual conference in San Diego, California for "Best Performance" in Defensive Driver Training as a part of the NSC's annual awards banquet.

We have developed a "*Severe Weather Mitigation Preparedness Guide"* to be used in our loss control efforts to assist insured in planning for and executing mitigation actions to minimize property damage claims resulting from severe weather events.

During the month of May, we sent out Loss Control Questionnaires to all state agencies. The deadline for submission to BRIM is August 1, 2014. At that time, we will gather the necessary information for calculation of loss control credits or surcharges for fiscal year 2016.

Since our last meeting, a vacancy has arisen within the Department. Shawn Hall accepted a position with the Maryland Department of Corrections as a Prison Chaplain. We are currently assessing our Departmental needs and structure to determine a timetable to fill this vacancy.

During the months of March, April and May, Aon conducted 171 inspections and Hartford conducted 909. The reports are being processed according to established procedures.

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

28 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.

34 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.

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

Dated: June 23, 2014

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

March 28, 2014

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

REPORTS

Matt South AON Risk Consultants	June 30, 2013 Actuarial Report
Robert A. Fisher Deputy Director/Claim Manager	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report Card Report
Jeremy C. Wolfe Loss Control Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

Tom Sauvageot West Virginia Investment Management Board	Presentation of New Allocation Approved by the West Virginia Investment Management Board

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

March 28, 2014

BOARD MEMBERS PRESENT:	Bruce R. Martin, CIC, CRM, Chairman Rob Anderson, Vice Chairman Sherry Cunningham, CPA, Member
BRIM PERSONNEL:	Robert Fisher, Deputy Director/Claim Manager Stephen W. Schumacher, CPA, CFO Chuck Mozingo, Assistant Claim Manager Bob Berry, Underwriter John Fernatt, IT Manager Stephen M. Fowler, Esq., BRIM Counsel Jeremy Wolfe, Loss Control Manager Carl Baldwin, Deputy Loss Control Manager Stephen Panaro, Controller Jeff Lawrentz, Underwriter Katie Heindl, IT/Claims Office Assistant Linda Dexter, Recording Secretary
INSURANCE COMMISSION REPRESENTATIVE:	Tonya Gillespie, CPA, Assistant Insurance Commissioner (serving as a representative for the Board Secretary)
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Bob Ayers, Wells Fargo Insurance Services Brenda Samples, Wells Fargo Insurance Services
GUESTS:	Matthew South, AON Risk Consultants Sandy Price, WVU Health Sciences Center

GUESTS (cont'd): Travis Bailey, Marshall University
Tracy Smith, Marshall University
Tom Sauvageot, WV Investment Management Board

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Chairman Martin at 1:00 p.m. on Friday, March 28, 2014, at 90 MacCorkle Avenue, SW, Suite 203, South Charleston, West Virginia.

INTRODUCTION OF INSURANCE COMMISSION REPRESENTATIVE

Before proceeding, Chairman Martin introduced and welcomed Tonya Gillespie as the Insurance Commission's representative. She currently serves as the Assistant Insurance Commissioner.

APPROVAL OF MINUTES

Mr. Cunningham moved the approval of the minutes of the November 26, 2013 Board Meeting. The motion was seconded by Vice Chairman Anderson. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

June 30, 2013 Actuarial Report

Chairman Martin called upon Matt South of AON Risk Consultants to present the June 30, 2013 actuarial report.

(For the convenience of the Board, a copy of the Risk Funding Study as of June 30, 2013 was previously distributed for their reference.)

Mr. South commented that the environment has gradually worsened in the last two to three years.

He thereafter began his general summarization of the risk funding study handout, first noting that the total program reported loss activity for FY 2012/13 was $50 million, the highest amount it has been in six years, and the total program paid loss activity was $44 million, which accounts for the increase in case reserves.

In addressing other exposures, Mr. South pointed out that the Patient Injury Compensation Fund (PICF) had five pending claims as of 6/30/13, with case reserves totaling $3.8 million; that as of 6/30/13 the fund balance was $3.5 million ($300,000 shortfall), and that House Bill 4621 recently passed by the legislature authorized a $2 million transfer from the HB601 fund to PICF.

Mr. South also noted that the premiums charged the SSUs for the past three fiscal claim periods have not been enough to cover the losses. Only for the 2012-13 claim period has there been a deficit for the SB3s.

Chairman Martin thereafter commented that, basically, individual losses are actually down, but ultimates are going up because of the frequency, to which Mr. South agreed.

A lengthy discussion thereafter ensued during which Mr. Cunningham first stated that he didn't see anything in the risk study which indicated that the outlook was going to get better—that nothing was going to change. Mr. South thereafter acknowledged that the new premium rates will continue to change because of the severity trend going up resulting from a bad economy. The prospect looks worse because the premiums are going up.

Mr. Cunningham then inquired as to whether Mr. South's analysis goes inside and lets us know under general liability the nature of the claims—whether it is discrimination, sexual harassment, criminal liability, etc. Mr. South explained that they can look at all the claims together and how a set body of claims changes over time; however, they do not break it down except to note SSU or SB3. He did acknowledge that they can get the detail.

Afterwards. Chairman Martin posed a question regarding rates relative to the loss control program, at which time Mr. Fisher noted that Mr. Schumacher has this information covered in his report. Mr. Schumacher interjected that the rates are going to be up about 17% higher than FY'14. Based on our losses, based on the amount BRIM has to give back, the bigger picture is-- if you look at FY'14 rates we gave back—we reduced them by about 24%. Even though the rate increase is 17%, they are still reduced by about 16% from what they should be because of the prior year reserve reductions savings that offset the expected normalized rates.

Regarding the credits, it was ascertained that they are being given not only for the loss control efforts but the privacy efforts as well, in conjunction with the State Privacy Office.

There being no further questions for Mr. South, Vice Chairman Anderson moved the acceptance of the actuary's report. The MOTION was seconded by Mr. Cunningham. There being no discussion, a vote was taken and the MOTION ADOPTED.

(The Risk Funding Study as of June 30, 2013 will be attached and made a part of the record.)

Executive Director's Report

In Mr. Jones' absence, the Executive Director's Report was presented by Deputy Director/Claim Manager Robert Fisher. The report was received and filed, a copy of which is attached and made a part of the record.

Mr. Fisher noted that during this legislative session, House Bill 4621, which transfers $2 million from the BRIM Medical Liability Fund to the Patient Injury Compensation Fund (PICF) for the fiscal year ending June 30, 2014, was passed by both houses and approved by the Governor on March 19th.

He also stated that the deadline for receiving responses to our RFP for a cyber liability broker to assist in procuring cyber insurance coverage is due by this afternoon. We would like to have this coverage in place by July 1, 2014. In addition, a cyber security questionnaire was sent to our state insureds for completion and return to assist us in determining the adequacy of our existing coverage, as well as what new coverage might be necessary.

Continuing with his report, Mr. Fisher introduced new hires Katie Heindl, Office Assistant I (Claim and IT Departments), and Jeffrey Lawrentz, Underwriter.

In closing, Mr. Fisher noted that BRIM has partnered with the West Virginia State Police to provide Active Shooter Survival Training, and since calendar year 2013, 1,709 people have been through the training. Of the 1,288 evaluation responses received, 99.5% indicated that they would recommend the training to others.

BRIM Financial Report

There being no questions for Mr. Fisher, Chairman Martin called upon Mr. Schumacher to present his Chief Financial Officer's Report. The unaudited balance sheet as of February 28, 2014 and the unaudited income statement for the eight months ending February 28, 2014 were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the October, November and December 2013, and January and February 2014 purchasing card invoices was distributed to each Board member. The Chairman signed the acknowledgement form for the July, August and September 2013 billings. The acknowledgement form is retained by the Finance Department.

During his report, Mr. Schumacher explained that in viewing the claims expense, the numbers have been updated as of 12/31/13, but we are also accruing additional reserves going forward based on what we have seen in prior years. The loss activity reflects the accrued reserves figures. We are also probably going to see between $48 million to $50 million in actual paid losses this year. So the effect of the reserve increases, in combination with the lower premiums billed, is primarily what is driving that negative operating result for both years.

Mr. Cunningham ascertained from Mr. Schumacher that the $206,528 (in thousands) Advance Deposit total on the balance sheet is representative of the Trust assets, and the $142,692 (in thousands) Investments total is representative of the IMB assets.

Loss Control Report

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

Especially noteworthy of announcing, Mr. Wolfe stated that approximately 34,509 State and County Boards of Education drivers have been enrolled in the National Safety Council on-line driver training program being offered by BRIM. The completion deadline is July 1, 2014, after which credits or surcharges will be applied to the automobile premium based on the level of participation of the insured agency.

There were no questions of Mr. Wolfe.

UNFINISHED BUSINESS

None.

NEW BUSINESS

Presentation of New Allocation Approved by the West Virginia Investment Management Board (IMB)

Mr. Sauvageot began by stating that every year, representatives from the IMB try to meet with representatives from the different investment plans to make sure that nothing is going on from a tax or investment standpoint that may influence how the IMB should be investing the money. There are even times when they make some strategic decisions on the asset classes, but every three years, the IMB representatives are required to go out and do a more formal assessment of the asset allocation for each of their participants, and the three-year assessment anniversary occurred back in the fall. He noted that he had been handling the BRIM allocation for ten years and had not made any changes during that time. In fact, the last time there were changes was when they got authorization to do private investment, which was triggered by the ability to do things that they couldn't do prior to that. Throughout all of their pension plans and their participant plans, there is a consistency, which is what will be seen for the duration of the report.

The interest rates on fixed income are extraordinary low; they have been this way for a few years. The outlook has continued to be pretty bad regarding that. As such, we are moving towards edging equity a little bit higher across the board or equity in favor of fixed income.

(At this point, Mr. Sauvageot began reviewing the information contained in the handout entitled "BRIM Investment Allocation.")

In reviewing the graph for performance returns on page 3, he stated that BRIM should not expect anywhere close to 10% returns over the next five years. Additionally, Mr. Sauvageot was asked to explain the 20%/80% distribution, to which he replied that it was 20% equity and 80% bonds.

He further stated that the IMB"s recommendation is to increase the equities—split between international equities and U.S. equities, each of those from 10% to 15%, reducing the fixed income from 45 to 35%, and leaving the TIPS, hedge funds and cash unchanged. Afterwards, a lengthy discussion ensued during which it was revealed that the IMB likes to have the allocations in place for a period of three to five years for reinvestment purposes.

Mr. Schumacher then asked Mr. Sauvageot if the IMB's allocation process considered all funds that BRIM had, including those not managed by the IMB. Specifically, BRIM has funds of about $205 million held in trust by the Bank of New York Mellon to pay claims. These funds are invested in fixed income short duration securities as required by the trust agreement. Mr. Sauvageot responded that the IMB's allocation review did not consider these funds but that this is something he could have the IMB consider in the future.

At the conclusion of the discussion, Mr. Cunningham moved that the Board accept the Investment Management Board's recommendation of Mix 4 on page 6 of the BRIM Investment Allocation handout. Vice Chairman Anderson seconded the motion. There being no discussion, a vote was taken and the MOTION ADOPTED.

(It was requested that the above report be attached and made a part of the minutes.)

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:31 p.m.

	June 24, 2014
Board Chairman	Date

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

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EXECUTIVE DIRECTOR'S REPORT
March 28, 2014

West Virginia University and Marshall University Medical Malpractice Program

As of March 21, 2014, West Virginia University has transferred or deposited $3,916,739.39 into the escrow account. The cumulative interest totals $132,607.75. During FY 2014, $4,489,438.98 has been paid so far.

For Marshall, $1,400,000.00 has been deposited into the escrow account. The cumulative interest totals $126,214.64. During FY 2014, $1,074,168.05 has been paid so far.

Claim Litigation Report

As of March 25, 2014, there were 603 pending litigated cases. AIG has received 41 new lawsuits during calendar year 2014 and has closed 115. For the same period last year, they had received 93 and closed 121.

We have three verdicts so far for calendar year 2014. One was a defense verdict; the second was a directed verdict in favor of the defendant; and the final verdict was a plaintiff verdict-but for an amount less than the plaintiff had demanded or had been offered.

Patient Injury Compensation Fund (PICF)

As the 2014 Legislative Session began, the PICF balance was approximately $225,000. House Bill 4621 originated in the Committee on Finance on March 3, 2014 and action in both chambers was completed on March 7 and the Governor approved the bill on March 19.

H.B. 4621 transfers $2 million from the BRIM Medical Liability Fund to the PICF for the fiscal year ending June 30, 2014. The bill was effective from passage. This means that the funds were appropriated as soon as the Governor approved the bill.

We have recently received a new PICF claim wherein the claimant demands $1 million from the Fund, which is the limit that can be paid to any one claimant. The claim has been assigned to the Application Review Committee for review and will be addressed further when that committee's report is received. Should a payment of $1 million be warranted, the Fund would find itself, once again, looking at a very limited amount of money from which it can address future claims.

The Secretary of Administration has been advised of this new claim and made aware, once again, of the need to identify a continuous funding source for the PICF to assure its continued viability.

Cyber Liability

We currently have a RFP out for response with bids due this afternoon. We are seeking the services of a broker to review our current coverages and to help us establish a program to protect us from cyber liability risks for our state customers. We anticipate the broker going to market to help us procure insurance coverage and would like to have the coverage in place by July 1, 2014. We know that there is some interest in our RFP as we received several questions.

The RFP set a period, through the end of April, for BRIM to conduct oral interviews of interested vendors if we so choose. That determination will be made after receipt and review of the proposals.

Also in the realm of cyber security, we sent a cyber security questionnaire to our various state insured. Responses were due at the end of February. Responses are still being received. To date, we've received responses from 115 out of 167 agencies. The responses are being reviewed and will be shared with our broker and utilized in our attempt to procure cyber liability protection.

Legislation - 2014 Regular Session

The only bills introduced this session that directly affected BRIM were House Bill 4621 dealing with the PICF which was discussed earlier; and House Bill 2055 which would have increased the maximum Mine Subsidence Reinsurance Amount from

$75,000 to $125,000. It seems as though this bill is introduced every session, by the same Delegate, and never gets out of committee.

The $75,000 statutory limit has been in place for many years and BRIM has no objection to the amount being increased. In practice however, the change would make little difference as there have been very few claims that have been reduced due to the current $75,000 limit. Most claims that are paid, and there are very few, are for less than that amount.

We have learned that the Governor vetoed a line in the state budget bill (Senate Bill 306) that would have expired $2,216,846 from the BRIM Premium Tax Savings Fund to the Medical Services Trust Fund. We have no control over the BRIM Premium Tax Savings Fund and our operations are not directly affected by how that money is utilized by the Legislature.

Personnel

I'm pleased to report to the Board that our ranks have swelled by two since last we met.

Katie Heindl joined us as an Office Assistant I to work in the Information Technology and Claim departments, and to assist where needed in other departments. Katie was with us for several months as a temporary employee prior to being hired full-time.

Jeffrey Lawrentz comes to us from Public Defender Services and was hired to be an Underwriter, filling a vacancy that we've had for quite some time. But for an Underwriting Manager, the Underwriting department is up to full strength.

Miscellaneous

As you probably know, BRIM has partnered with the West Virginia State Police to provide Active Shooter Survival Training. Chuck Mozingo and John Fernatt have been working with First Sergeant Mike Lynch of the State Police to provide this valuable, very popular training. Based solely on word of mouth, the program's reputation has grown and new requests for training continue to pour in.

During calendar year 2013, the group conducted 33 training sessions. During the first 13 weeks of calendar year 2014, 16 sessions have been conducted with 436 people attending. Looking ahead, another 29 sessions are scheduled through August of this year.

All told, 1,709 people have been through the training. Of the 1,288 written evaluations received, 99.5% of the responses indicated that they would recommend the training to others.

Respectfully submitted,

Robert A Fisher

Robert A. Fisher

Deputy Director and Claim Manager

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Chief Financial Officer's Report
March 28, 2014

A. P-Card Report

CD copies contain the supporting detail for P-card purchases for the months of October, November and December, 2013 and January and February, 2014. These totals are:

October	$54,850.08
November	$13,227.69
December	$56,787.77
January	$38,309.36
February	$40,589.64

B. Financial Report

- The financial results presented are for the eight months ended February 28, 2014 and reflect the actuarially estimated unpaid losses per AON's risk funding study as of December 31, 2013, plus additional reserves accrued thru February 28, 2014.
- Total premium revenue in both years reflects lower billings to insureds realized from favorable reserve development in prior fiscal years being passed on to insureds reducing total revenue.
- Operating results for the eight months of FY'14 reflect the impact of claims reserves increasing by $5.7 million during the current fiscal year vs. a $7.9 million increase for the same period last year. Net claims payment activity in 2014 also increased claims expenses by an additional $7.8 million in 2014 vs. the prior year. Property claims expense is down in 2014, primarily as a result of the "derecho" wind event that increased property claims payments in 2013.
- The effect of reserve increases in combination with lower premiums billed are responsible for the negative operating results for both fiscal years.
- The low interest rate environment has reduced the yield on U.S. Treasuries and other government-backed securities being held for claims payments to yield less than 2% for the current fiscal year. However, BRIM's exposure to equities for a small portion of its funds invested with the WVIMB continues to support BRIM's overall returns for the current fiscal year.

C. FY'15 Premiums

- The rates for both the State and SB3 programs for FY'15 are near finalization. Overall, FY'15 premium rates are about 17% higher than FY'14. This increase is the combination of higher actuarial losses projected for the year and having less savings realized from prior year reserve reductions to offset rates when compared to FY'14. Even so, FY'14 rates were reduced by 24% and FY'15 rates were reduced by 16% due to prior year reserve reductions savings that offset the expected normalized rates anticipated by the rating model.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	February 28 2014	2013
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 23,908	$ 29,876
Advance Deposit with Carrier/Trustee	206,528	208,924
Receivables - Net	8,746	2,141
Prepaid Insurance	1,971	1,948
Total Short Term Assets	241,153	242,889
Long Term Assets		
Investments	142,692	134,536
Total Long Term Assets	142,692	134,536
TOTAL ASSETS	383,845	377,425
LIABILITIES		
Short Term Liabilities		
Accounts payable	5,898	1,874
Claims Payable	20	530
OPEB Liability	372	374
Agents Commissions Payable	621	684
Unearned Revenue	10,984	9,244
Current Estimated Claim Reserve	49,793	48,718
Total Short Term Liabilities	67,688	61,424
Long Term Liabilities		
Compensated Absences	64	67
Estimated Noncurrent Claim Reserve	102,631	96,164
Total Long Term Liabilities	102,695	96,231
TOTAL LIABILITIES	170,383	157,655
Prior Year Net Assets		
Restricted - HB601 and Mine Subsidence	49,752	45,599
Unrestricted	165,257	175,916
Total Prior Year Net Assets	215,009	221,515
Current Year Earnings (Deficiency)		
Restricted - HB601 and Mine Subsidence	716	1,528
Unrestricted	(2,263)	(3,273)
Total Current Year Earnings (Deficiency)	(1,547)	(1,745)
Total Net Assets		
Restricted - HB601 and Mine Subsidence	50,468	47,127
Unrestricted	162,994	172,643
TOTAL NET ASSETS	213,462	219,770
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 383,845	$ 377,425

DRAFT - Unaudited - Management Purposes Only

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

	February 28 2014		February 28 2013
	2014		**2013**
	(in thousands)		
Operating Revenues			
Premium Revenues	$ 35,900	$	32,564
Less - Excess Insurance	(4,131)		(3,883)
Total Operating Revenues	31,769		28,681
Operating Expenses			
Claims Expense	39,921		34,255
Property & MS Claims Expense	1,949		4,550
Personal Services	930		863
General & Administrative Expense	1,796		1,562
Total Operating Expenses	44,596		41,230
Operating Income (Loss)	(12,827)		(12,549)
Nonoperating Revenues			
Investment Income	11,280		10,804
Total Nonoperating Revenues	11,280		10,804
Net Income (Loss)	$ (1,547)	$	(1,745)

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

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Earl Ray Tomblin
Governor

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Ross Taylor
Cabinet Secretary

Loss Control Report to the Board
March 2014

Senate Bill #3 loss control questionnaires were due on January 1, 2014. Since then, we have completed evaluations of those questionnaires to apply credits or surcharges based on insured participation in our Standards of Participation program.

We have successfully renewed the Medical Malpractice Risk Management Loss Prevention Consulting contract with West Virginia Mutual Insurance Company for calendar year 2014.

Approximately 34,509 State and County Board of Education drivers have been enrolled in the National Safety Council on-line driver training program being offered by BRIM. The deadline for completion of this training is July 1, 2014. Credits or surcharges will be applied to automobile premium based on the level of participation of each insured participating.

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, February, and March Aon conducted 95 inspections and Hartford conducted 978. The reports are being processed according to established procedures.

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

15 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.

28 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.

2 Inspection Observation Visits

These are visits during which we accompany a vendor during scheduled inspections.

15 Continuing Education Visit

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

Dated: 3/24/14

Respectfully submitted,

Jeremy C. Wolfe

Jeremy C. Wolfe
Loss Control Manager

BRIM Investment Allocation

Introduction

History

The Board of Risk and Insurance Management (BRIM) is a State entity charged with providing insurance coverage to all State agencies, as well as, cities, counties, and non-profit organizations throughout West Virginia under the provisions of Senate Bill 3. BRIM also provides a coal mine subsidence reinsurance program that allows homeowners and businesses to obtain insurance coverage up to $75,000 for collapses and damage caused by underground coal mines.

Liquidity Needs

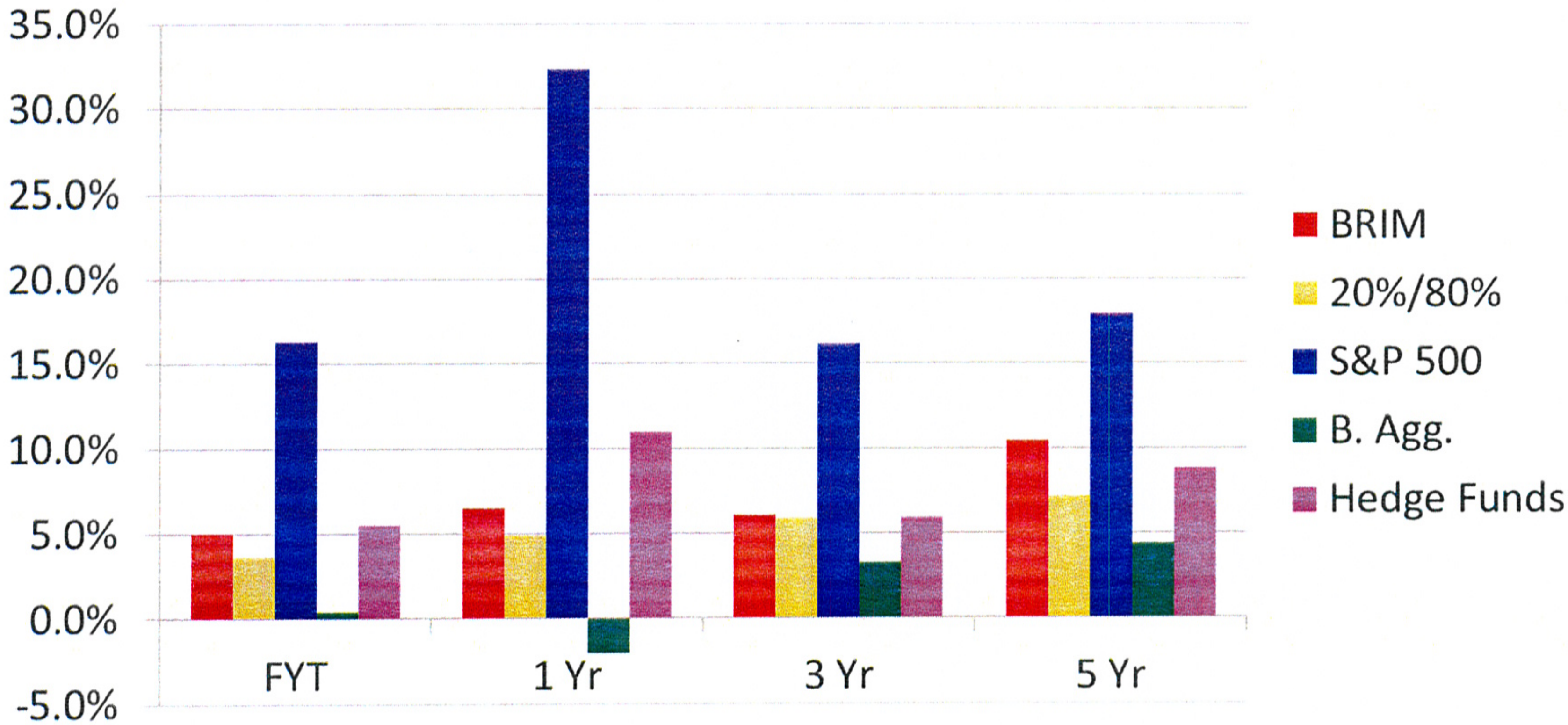
There may be some current liquidity needs, not exceeding 10% in any given year, for BRIM in the next few fiscal years. BRIM requires a cash reserve account for collateral purposes amounting to ~ 15% of the funds for investment*. This amount is held in the Consolidated Fund, which is administered by the WV Board of Treasury Investments and utilized at BRIM's discretion.

Investment Objectives

- Provide adequate liquidity to meet the cash flow requirements.
- Allow for growth of assets in an amount at least equal to expected inflation.

*cash reserve not included in the analysis

Performance Returns
12/31/2013



Current Outlook

	Return	Risk
US Equity	7.8%	17.5%
International Equity	8.5%	20.7%
Fixed Income	2.7%	5.0%
TIPS	2.2%	4.5%
Hedge Funds	4.9%	10.0%
Private Equity	10.2%	33.0%
Real Estate	6.9%	20.7%
Cash	1.5%	1.0%
Inflation	2.4%	

Cash Flow Modeling Summary (Millions $)

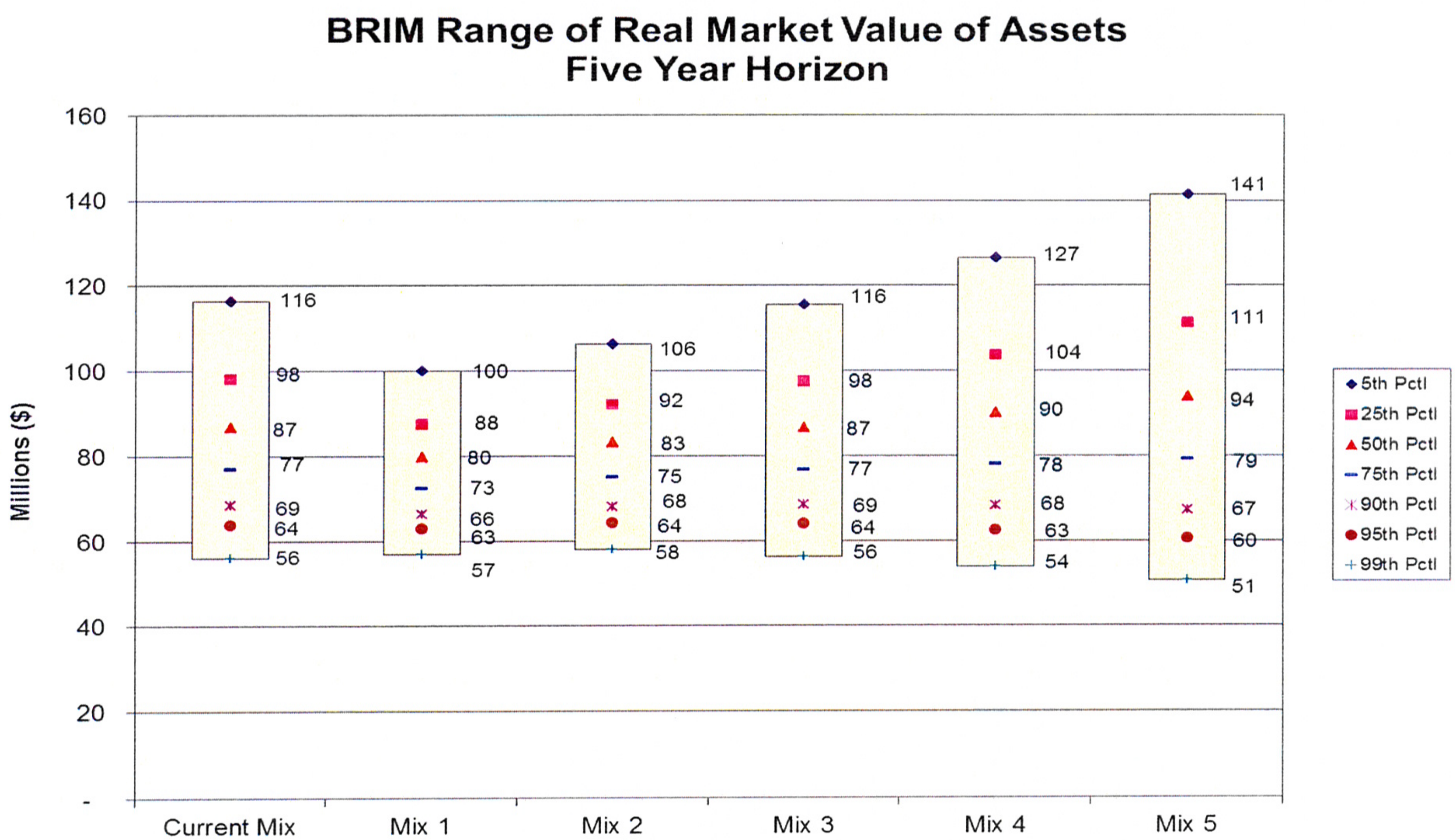
Initial Market Value (6/30/13) = $ 139.15

	Year Ending 6/30				
	2014	2015	2016	2017	2018
Inflows (Premiums)	$ 50.0	$ 51.0	$ 52.0	$ 52.5	$ 53.0
Outflows (Claims)	$ 64.0	$ 64.1	$ 65.0	$ 65.7	$ 66.3

Asset Mix Alternatives

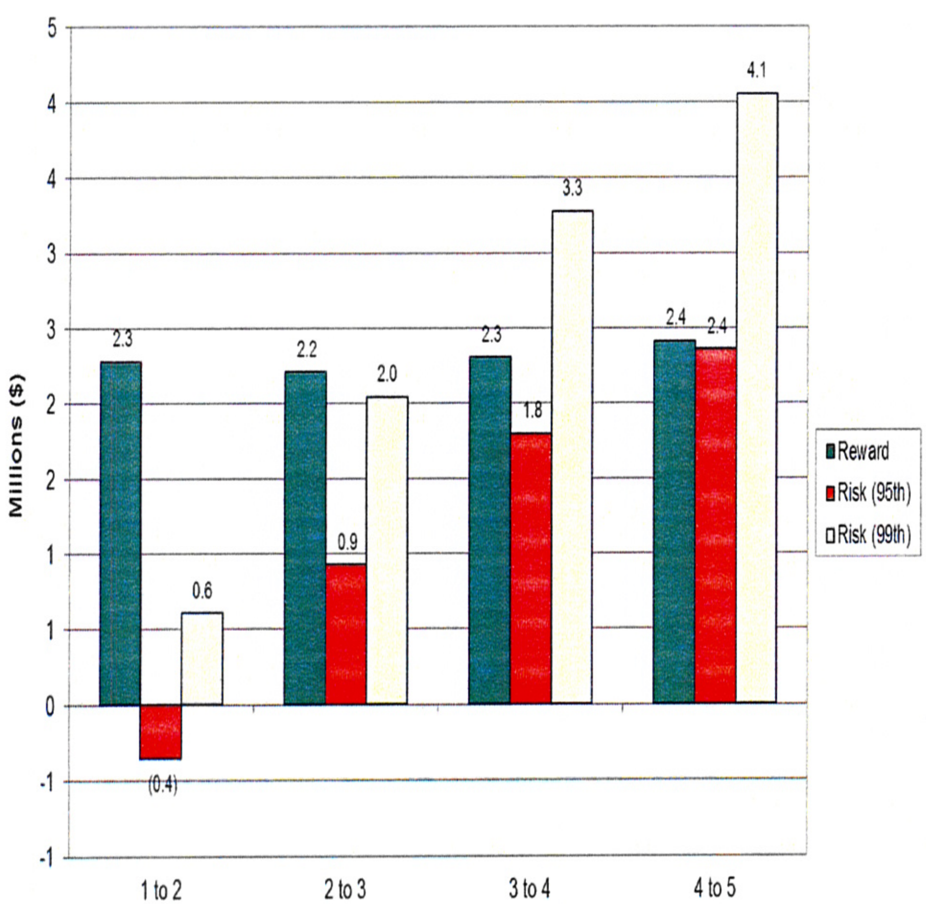
	Current Target	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
US Equity	10.0%	0.0%	4.7%	9.6%	14.8%	19.9%
Intl Equity	10.0%	0.0%	4.7%	9.6%	14.8%	19.9%
Fixed Income	45.0%	60.0%	52.4%	44.6%	36.4%	35.1%
Hedge Funds	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
TIPS	10.0%	15.0%	13.1%	11.1%	9.1%	0.0%
Cash	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity Like	20%	0%	9%	19%	30%	40%
Fixed Income Like	75%	95%	86%	76%	65%	55%
Cash	5%	5%	5%	5%	5%	5%
Expected Return	4.4%	3.1%	3.7%	4.3%	5.0%	5.6%
Expected Std. Dev.	6.4%	4.6%	5.2%	6.3%	7.6%	9.2%
Sharpe Ratio	0.453	0.341	0.422	0.453	0.455	0.445
Exp. Real Return	2.0%	0.7%	1.3%	1.9%	2.6%	3.2%

Range of Real Value of Assets – 5 Year Horizon

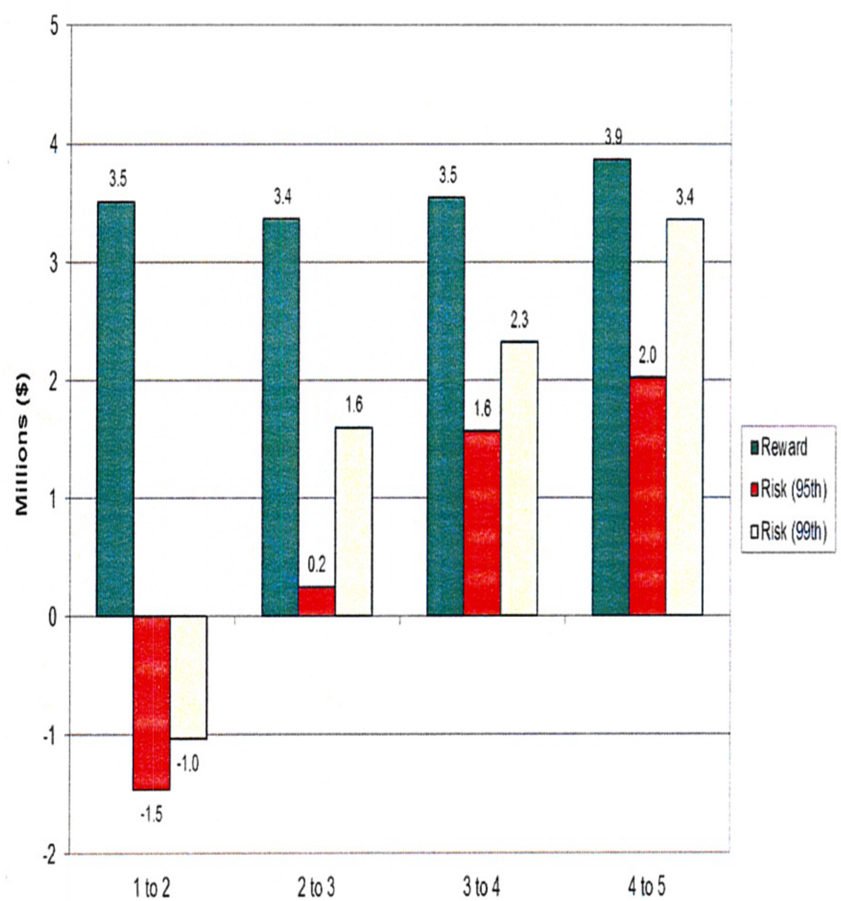


Risk/Reward Analysis

BRIM Real Market Value of Assets Risk/Reward
Three Year Horizon



BRIM Real Market Value of Assets Risk/Reward
Five Year Horizon



Recommendation

- Typical Risk Tolerance (95th Percentile, 1 in 20 probability) suggests Mix 5 at a 3 and 5-Year Horizon.
- Lower Risk Tolerance (99th Percentile, 1 in 100 probability) suggests Mix 3 at a 3-Year Horizon and Mix 5 at a 5-Year Horizon.
- Recommend adopting Mix 4 (move 10% from Fixed Income to Public Equity).

ASSET CLASS	CURRENT	REC. MIX
US EQUITY	10	15
INTL EQUITY	10	15
FIXED INCOME	45	35
TIPS	10	10
HEDGE FUNDS	20	20
CASH	5	5
FIXED INCOME LIKE	75	65
EQUITY	20	30
CASH	5	5
EXPECTED RETURN	4.4%	5.0%
EXPECTED STD. DEV.	6.4%	7.6%

State of West Virginia
Board of Risk and Insurance Management

Risk Funding Study as of June 30, 2013

Presented March 28, 2014

Marketplace

National Underwriting Trends by Line

Domestic Marketplace – Calendar Year Combined Ratio

	Actual											Estimated	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F
Personal Auto	107.9	104.2	98.4	94.4	95.1	95.5	98.3	100.3	101.3	101.0	101.9	99.6	98.5
Homeowners	121.7	109.2	98.3	94.2	100.1	89.4	95.7	116.9	105.8	106.7	122.2	118.0	105.5
Workers' Compensation	120.7	112.6	108.5	105.2	102.7	98.4	103.5	104.5	110.6	116.8	116.9	117.3	115.0
General & Products Liability	130.6	137.4	115.9	117.4	113.1	95.3	99.0	95.1	105.4	109.8	100.5	103.6	106.3
Commercial Package	118.7	104.9	99.9	100.6	97.1	93.0	92.1	104.1	97.0	100.2	113.2	116.6	102.6
Commercial Auto	116.2	102.7	95.1	92.9	92.1	92.4	94.3	96.8	99.4	98.0	104.6	107.1	103.6
Fire & Allied Lines	123.8	89.2	79.6	86.8	104.1	79.7	69.9	99.3	80.0	82.5	102.9	108.2	86.7
Medical Malpractice	154.4	142.4	137.5	111.0	101.0	91.3	84.3	77.4	83.4	80.6	87.9	91.0	93.5
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	106.5	106.2	101.2

Marketplace

- Aon 2013 Hospital Professional Benchmark Study

- Highlights:
  - Frequency Trend flat at 0% per year
  - Severity Trends continue at 2.5% per year
  - Hospitals are increasingly employing physicians and integrating them into their self-insurance programs (cost savings due to joint defense of claims and uniformity of risk management)

Loss Emergence

- Total Program fiscal calendar year (2012/13) reported loss activity was $50 million
  - About $1.5 million higher than FY11/12 incurred loss activity
  - Highest amount of reported loss activity in last 6 years
  - Increase primarily attributed to general liability

- Total Program fiscal calendar year (2012/13) paid loss activity was $44 million
  - About $6 million higher than FY11/12,
  - FY12/13 payments comparable to FY08/09 and FY09/10 levels
  - Payments <u>could</u> increase further in the future as a result of increased level of unpaid losses

6/30/13 Unpaid Loss Estimates

- Unpaid Loss = Ultimate Loss – Paid Loss

- Unpaid Loss = Case Reserves + IBNR

- Increased $6.4 million (or 4.7%) since 6/30/2012
    - SSU GL increased $4.1 million
    - SB3 GL increased $2.8 million
    - SSU Auto increased $1.25 million
    - SSU property decreased $ 1.6 million
    - SB3 property decreased $ 0.9 million

Line of Business Results

Automobile

- SSU Auto had lower than expected paid loss emergence but slightly higher than expected reported loss emergence (i.e. case reserves increased)
- SB3 Auto had higher than expected loss emergence on both a paid loss and reported loss basis
- Combined SSU and SB3 ultimate losses increased by $2.3 million

Medical Malpractice

- Reported loss emergence for both SSU and SB3 was better than expected
- SSU paid loss emergence was slightly higher than expected, while SB3 paid loss emergence was better than expected
- Combined SSU and SB3 ultimate losses decreased by $2.6 million
- The loss activity in the WVU/Marshall deductible layer was $7.7 million (paid) and $5.1 million (incurred)
  - Deductible layer is continuing to mature

General Liability

State Spending Units

- Fiscal year reported loss activity increasing every year since 09/10
- Higher than expected loss emergence on both a reported and paid basis
- Ultimate loss estimates increased $1.4 million (0.5%)
- Unpaid loss estimates increased $4.1 million
  - $2.6 million from increased case reserves (primarily from accident years 11/12 and 12/13)
  - $1.4 million from increased IBNR, due to increased loss activity and increases in SSU GL exposures over the last several years

General Liability

Senate Bill #3

- Fiscal year reported loss activity increasing since 10/11; 12/13 had highest reported loss activity since 07/08
- Higher than expected reported loss emergence
  - Particularly for accident years 00/01, 09/10 and 11/12
- Lower than expected paid loss emergence
- Ultimate loss estimates increased $3.6 million (1.1%)
  - $3.3 million increase to 09/10 accident year
- Unpaid loss estimates increased $2.8 million
  - $2.9 million from increased case reserves
  - $0.1 million decrease to IBNR

Property

- FY 12/13 Property loss emergence for both SSU and SB3 was much better than expected (in part, due to improvement in flood-related claims)
- Combined SSU and SB3 ultimate losses decreased by $0.5 million
- Unpaid losses for both SSU and SB3 decreased due to continued payout of claims related to 6/29/12 windstorm/derecho event

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 6/30/13. The IBNR provision remains zero.
- As of 6/30/13, there are 5 pending claims against the Patient Injury Compensation Fund with case reserve amounts totaling $3.8 million
  - PICF fund balance as of 6/30/13 is $3.5 million, implying $300,000 shortfall
  - Law recently passed authorizing transfer of $2 million from HB601 fund to PICF
  - The PICF has paid about $1.9 million from its inception through 6/30/13, with $0.3 million paid during FY12/13

December Update

- Unpaid loss estimates increased $7.7 million or 5.4% between June 30, 2013 and December 31, 2013
- Drivers of the increase since June 30, 2013:
  - Accrual of first 6 months of current 2013/14 program year
  - Increase in case reserves for older SB3 auto liability program years
  - Increase in general liability SSU case reserves
  - Increase in SB3 Medical Malpractice loss activity (historically very little loss activity for this coverage)
  - Newly reported fraud/embezzlement claim for SSU property (7/1/08 event date)

December Update

Line of Business	Entity	Retained Unpaid at 12/31/2013	Retained Unpaid at 6/30/2013	*Change from 6/30/2013 to 12/31/2013 in Retained Unpaid Loss* Dollar Change	Percent Change
Automobile Liability	SSU	8,666,371	8,249,211	417,159	5.1%
Automobile Liability	SB3	11,554,458	10,221,872	1,332,586	13.0%
General Liability	SSU	63,360,875	59,033,318	4,327,557	7.3%
General Liability	SB3	40,726,961	39,803,582	923,379	2.3%
Property	SSU	3,199,274	2,731,862	467,412	17.1%
Property	SB3	2,206,809	1,924,901	281,908	14.6%
Medical Malpractice	SSU	17,672,843	18,184,242	(511,400)	-2.8%
Medical Malpractice	SB3	1,533,259	1,124,851	408,408	36.3%
Mine Subsidence		861,802	832,041	29,761	3.6%
Total		149,782,651	142,105,881	7,676,770	5.4%

Accident Year 13/14 Loss Forecasts

- The interest rate for discounting remains at 4%.
- Exposure estimates flat, or slightly decreasing (exception: increase to SB#3 property exposure estimate)
- Changes in forecasted loss rates tend to mirror changes in ultimate loss estimates (which are based on actual loss emergence)
- Property and medical malpractice forecasts decreased due to better than expected loss emergence
- SB#3 auto and general liability forecasts increased due higher than expected loss emergence
- SSU general liability forecast decreased slightly due to lower forecasted exposures

Impact to Rating Process

- Premiums increased from 00/01 through 04/05; generally decreased or remained steady from 04/05 through 12/13
- Unfunded liability premium credit begun in 2010/11, further reducing charged premium
- Actual rates of return in recent years have been less than the 4% rate used for discounting losses
- SSU premiums increased for 2014/15 program year, primarily as a result of higher expenses
  - SSU excess property premiums $1 million higher due to cyber security coverage
  - Reduction in SSU unfunded liability credit
    - 2013/14 SSU unfunded liability credit: $9.4 million
    - 2014/15 SSU unfunded liability credit: $5.4 million
- Increase in minimum premium for individual insureds (SSU) for 2014/15 program year

Comparison of Premiums and Ultimate Losses

	SSU			SB3		
Claim Period	Premiums	Projected Ultimate Retained Loss	Difference	Premiums	Projected Ultimate Retained Loss	Difference
1996-97	19,800,000	20,912,588	(1,112,588)	33,100,000	20,831,208	12,268,792
1997-98	20,687,566	21,421,421	(733,855)	26,326,343	20,654,086	5,672,257
1998-99	21,526,869	24,789,652	(3,262,783)	23,070,990	16,956,633	6,114,357
1999-00	20,982,952	29,205,464	(8,222,512)	22,677,285	21,087,023	1,590,262
2000-01	20,018,978	19,322,092	696,886	20,951,525	19,133,080	1,818,445
2001-02	27,130,323	20,932,821	6,197,502	26,524,921	24,031,744	2,493,177
2002-03	36,181,360	15,999,139	20,182,221	37,843,695	21,328,315	16,515,380
2003-04	36,011,418	20,056,276	15,955,142	35,793,345	24,924,956	10,868,389
2004-05	46,715,999	23,376,709	23,339,290	41,269,868	20,340,912	20,928,956
2005-06	39,985,777	17,980,146	22,005,630	40,920,237	19,836,469	21,083,769
2006-07	39,091,169	20,643,786	18,447,383	39,480,713	17,543,925	21,936,788
2007-08	36,258,662	21,633,488	14,625,174	34,852,156	18,402,215	16,449,941
2008-09	31,595,637	23,042,467	8,553,170	28,901,791	16,622,041	12,279,750
2009-10	28,257,070	24,339,307	3,917,763	27,889,296	16,940,278	10,949,018
2010-11	25,239,238	28,180,678	(2,941,440)	25,232,989	17,756,137	7,476,852
2011-12	25,296,014	32,410,504	(7,114,490)	23,769,617	22,108,428	1,661,189
2012-13	25,645,800	30,885,250	(5,239,450)	19,306,565	21,699,750	(2,393,185)
Total	500,424,831	395,131,789	105,293,042	507,911,336	340,197,199	167,714,137

Note:
Ultimate losses from Aon's 6/30/13 actuarial analysis.

Losses and Expenses Used in Premium Calculations

Historical SSU

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Losses to Allocate	35,486,081	29,242,973	25,630,703	24,863,481	22,354,644	24,314,751	25,291,087	26,860,100	29,381,827	30,668,264
Expenses to Allocate	6,654,426	11,095,587	6,171,605	6,081,101	4,196,955	(465,155)	(784,080)	(1,278,703)	(1,873,265)	3,249,433
Total Costs to Allocate	42,140,507	40,338,560	31,802,308	30,944,582	26,551,599	23,849,596	24,507,007	25,581,397	27,508,562	33,917,697

Historical SB#3

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Losses to Allocate	30,924,318	30,081,994	31,749,427	25,416,671	27,477,436	23,955,031	21,190,880	19,735,398	19,528,730
Expenses to Allocate	9,949,051	15,148,712	10,409,846	11,379,385	11,924,365	3,321,920	3,815,076	1,264,954	1,995,155
Total Costs to Allocate	40,873,369	45,230,706	42,159,273	36,796,056	39,401,801	27,276,951	25,005,956	21,000,352	21,523,885

Notes:

Losses include AL, GL, Property and Medical Malpractice, and are on a present value basis.

Unfunded liability credit included in expenses.

Conclusion

- Somewhat higher than expected reported loss emergence during FY12/13 for all coverages combined
- Lower than expected paid loss emergence during FY12/13 for all coverages combined
- Paid and reported emergence better than expected for property and medical malpractice; worse than expected for auto and general liability
- Areas of primary focus for FY13/14:
  - Monitor loss emergence (in particular for general liability, and to a lesser extent, auto) to determine if paid losses increase further as a result of higher level of unpaid losses

Questions?

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

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

November 26, 2013

Vice Chairman Martin	Call to Order
Vice Chairman Martin	Approval of Board Minutes August 27, 2013

REPORTS

Susan Wheeler Ernst & Young, LLP	June 30, 2013 Audited Financial Report by Ernst & Young, LLP
Charles E. Jones, Jr. Executive Director	Executive Director's Report
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report PCard Report
Robert A. Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

Vice Chairman Martin	Election of Chairman and Vice Chairman
Vice Chairman Martin	Resolution Recognizing Former Chairman Lukens

ADJOURNMENT

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

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Executive Director
charles.e.jones@wv.gov

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

November 26, 2013

BOARD MEMBERS PRESENT:
Bruce R. Martin, CIC, CRM, Acting 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
Bob Berry, Underwriter
John Fernatt, IT Manager
Stephen M. Fowler, Esq., BRIM Counsel
Jeremy Wolfe, Loss Control Manager
Carl Baldwin, Deputy Loss Control Manager
Shawn Hall, Loss Control Specialist
Ashlyn Harlan, Loss Control Specialist
Stephen Panaro, Controller
Linda Dexter, Recording Secretary

BRIM PROGRAM REPRESENTATIVES:
Charles Waugh, AIG Claim Services
Joanna Valleau, AIG Claim Services
Bob Ayers, Wells Fargo Insurance Services
Brenda Samples, Wells Fargo Insurance Services

GUESTS:
Betty Rowe, Ernst & Young, LLP
Susan Wheeler, Ernst & Young, LLP
Sandy Price, WVU Health Sciences Center

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Acting Chairman Martin at 1:05 p.m. on Tuesday, November 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 August 27, 2013 Board Meeting. The motion was seconded by Mr. Anderson. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

June 30, 2013 Audited Financial Report

Acting Chairman Martin recognized Susan Wheeler of Ernst & Young (E & Y), independent auditors for the West Virginia Board of Risk and Insurance Management, who presented the annual audit results as of June 30, 2013. (Prior to the meeting, copies of the reports entitled "West Virginia Board of Risk and Insurance Management, 2013 audit results and communications" and "Financial Statements, Required Supplementary Information, and Other Financial Information" for the Years Ended June 30, 2013 and 2012 were distributed to the Board members.)

Referring to the audit results document, Ms. Wheeler stated that E & Y issued an unqualified opinion (highest rating possible) on BRIM's 2013 financial statements, which is noted on page 6. Its report on internal control over financial reporting disclosed no instances of noncompliance.

Ms. Wheeler then recognized the BRIM Finance staff and complimented them in being very diligent and doing such a fine job.

Continuing with her review of the audit results document, she thereafter summarized the contents of pages 7 through 9, "Accounting policies and areas of audit emphasis," which explain the key issue/risk areas and summarizes E & Y's procedures and findings in each of the areas identified. Relative to the unpaid claims and claims adjustment expense issue, E & Y identified no differences greater than their summary of audit difference threshold.

Betty Rowe, BRIM's account manager, was then introduced by Ms. Wheeler and asked to discuss the "Required communications" topic. It was noted that Ms. Rowe has worked very closely with BRIM finance personnel over the past few years.

Ms. Rowe discussed the "Summary of required communications" topics, noting that they were not aware of any matters that required communication, and there were no significant deficiencies or material weaknesses identified as a result of their audit of BRIM.

In commenting on the Industry analysis, she noted that because of the large storms, there has been an increase in losses; however, BRIM's expense ratio is well below the industry average.

In closing, Ms. Rowe 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. Rowe or Ms. Wheeler, Acting Chairman Martin deviated slightly from the proceedings and announced that he was appointing an Audit Committee to work with E & Y personnel in finalizing the annual audit results. The committee would be comprised of Mr. Cunningham as chairman, Mr. Schumacher as a member, and anyone else deemed necessary to assist them prior to the annual meeting.

Mr. Cunningham thereafter moved the acceptance of the auditor's report. The MOTION was seconded by Mr. Anderson. There being no discussion, a vote was taken and the MOTION ADOPTED.

(The two reports previously described and used in the presentation will be attached and made a part of the record.)

Executive Director's Report

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 stated that back in August 2013, he explained to the legislative committee about the status of the Patient Injury Compensation Fund (PICF). He further stated that he sent a letter to the Speaker of the House and the Senate President informing them of the status of the PICF. Since 7/1/2003, a total of ten claims had been received; however, based on us having about five claims open that time, we anticipated that we had a $1.1M shortfall based on what we expected to pay out on those claims.

Since that time, the PICF Committee has resolved four of those five claims, and they were resolved at amounts less than anticipated. Therefore, currently, the balance of the fund as of 11/15/13 is $589,757.44. There is still one open claim, and that has not reached the point where the Committee can determine what the result will be. Mr. Jones thereafter explained the various processes involved, from the Application Review Committee to the Executive Review Committee, and stated that the Committee is not in a position to make a determination on that final pending claim.

At this point, a discussion ensued regarding whether the legislature will fund the Patient Injury Compensation Fund going forward. Mr. Jones thinks that the legislature will want to do this; if not, there might be some initiative to go back into the med mal law, H.B. 601, to take away the caps and bring back joint liability. He further stated that the legislature has looked at the moneys that are in the medical liability fund as a possible temporary "fix" toward funding the PICF. In order for the legislature to take that money from the medical liability fund, it would have to pass legislation to transfer that money to the PICF. For clarification purposes, Mr. Jones thereafter explained that the claims are not paid until the end of the current fiscal year; but if the total of the claims is more than the balance of the PICF, those claims have to be prorated.

During a discussion regarding cyber security, Mr. Jones noted that this is something normally not covered in a property policy and that most security breaches are over $3M. He stated that BRIM management is currently looking for a consultant to assist with limited services and thereafter issuing an RFP for a broker to serve as agent of record. BRIM hopes to have coverage by July 1, 2014.

Mr. Jones thereafter explained that BRIM does partner with the chief privacy office in conducting assessments of state agencies to find out what they are doing regarding minimizing the opportunity for a loss to occur in the cyber security arena. They/we have provided credits to those agencies that participate in the self-assessment, and there were 66 agencies that participated recently. The self-assessments will now be evaluated in order to assess the number of credits to be awarded.

In closing his report, Mr. Jones recognized Robert Fisher for having been elected

President-Elect of the State Risk Insurance Management Association (STRIMA) at the annual conference held in September.

BRIM Financial Report

There being no questions for Mr. Jones, Acting Chairman Martin asked Mr. Schumacher to present his Chief Financial Officer's Report. The unaudited balance sheet as of September 30, 2013 and the unaudited income statement for the three months ending September 30, 2013 were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the July, August and September 2013 purchasing card invoices was distributed to each Board member. The Acting Chairman signed the acknowledgement form for the April, May, and June 2013 billings. The acknowledgement form is retained by the Finance Department.

Mr. Schumacher began first by recognizing Mr. Panero, the new BRIM Controller, for his exceptional support in providing the information needed to get through the audit in a timely manner.

Mr. Schumacher thereafter elaborated on the auditor's loss and combined ratio analyses, specifically noting that BRIM incurred some large losses because of the super storms. Additionally, he stated there are a couple of other factors that are probably at least as significant-- if not more significant-- in impacting the loss ratios and is primarily attributed to what BRIM has given back in premiums the last two years as a result of reserve reductions. BRIM can't continue to do that long term, so the combined loss ratio number will come back closer to normal as we calculate the rates for next year. The other influencing factor was that since interest rates were down, we didn't make as much money on investments.

Another point that Mr. Schumacher wanted to make clear was that the Patient Injury Compensation Fund is not included in BRIM's financials; the H.B. 601 fund is.

In closing his report, Mr. Schumacher commented that BRIM should receive the GFOA Certificate of Excellence in accounting for the fiscal year ending June 30, 2013 sometime next summer.

Loss Control Report

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.

Mr. Fisher announced that the loss control department is now fully staffed and thereafter introduced Ashlyn Harlan and Shawn Hall, the new Loss Control Specialists, to the Board.

Mr. Fisher then called on Mr. Wolfe to give a status update regarding the Driver Training Program. Mr. Wolfe stated that for this time, the training will encompass all 55 county school boards and their state agencies. The Loss Control Department hopes to train around 32,500 people and we should have a vendor selected by the next board meeting. We hope to begin training by June 1, 2014.

UNFINISHED BUSINESS

Approval of Investment Management Reports

It was brought to Acting Chairman Martin's attention that the reports presented by the investment managers at the August 27, 2013 meeting had not been accepted. Accordingly, Mr. Anderson moved the acceptance of the reports presented by the representatives of Standish Mellon Asset Management and the West Virginia

Investment Management Board. Mr. Cunningham seconded the MOTION. There being no discussion, a vote was taken and the MOTION ADOPTED.

NEW BUSINESS

Election of New Board Chairman

Acting Chairman Martin noted that the next topic on the agenda was the election of the new Board Chairman. Mr. Cunningham thereafter moved the nomination of Bruce Martin as Chairman and Rob Anderson as Vice Chairman of the BRIM Board. The motion was seconded by Mr. Anderson. There being no discussion, a vote was taken and the MOTION ADOPTED.

Resolution Recognizing Former Chairman Lukens

Chairman Martin thereafter read a proclamation paying tribute to former Board Chairman John R. Lukens, a copy of which is attached and made a part of the record. Unfortunately, Mr. Lukens could not attend the meeting today, so the executed proclamation will be mailed to him.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:07 p.m.

[signature]	3/28/14
Board Chairman	Date

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

Executive Director's Report

November 26, 2013

A. Marshall University and West Virginia University Medical Malpractice Program

- As of October 31, 2013, Marshall has deposited $1,400,000.00 into the escrow account. The cumulative interest totals $125,342.81. There have been disbursements totaling $83,141.80 during fiscal year 2014 thus far.

- As of October 31, 2013, no funds have been transferred or deposited into WVU's escrow account. The cumulative interest totals $131,376.73. There have been no disbursements during fiscal year 2014 thus far.

B. State Agency/Senate Bill #3 Litigation

Litigation results: So far in 2013, we have tried six cases to a verdict, with three defense verdicts and three plaintiff verdicts. This week's plaintiff verdict for $200,000 was for the amount we were prepared to pay in response to a demand of $750,000. This was a favorable outcome.

C. Joint Committee on Government and Finance Legislative Interim Meeting

The West Virginia Legislature created the Patient Injury Compensation Fund (PICF) in 2004 for the purpose of providing fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of limitation on economic damage awards for trauma care, or as a result of the operation of the joint and several liability principles and standards set forth in article seven-b [§§ 55-7B-1], chapter fifty-five of the West Virginia Code.

BRIM continues to administer the PICF and has done so since its inception. Since inception, as of November 22, 2013, BRIM has received a total of ten (10) claims.

During the July 24, 2013 legislative interim meeting of the Joint Committee on Government and Finance, I reported to the interim committee the current status of the PICF. This was followed by a letter to the Senate President and the Speaker of the House dated August 2, 2013.

At that time, it was reported that of the ten reported claims, five were open and pending. The balance of the PICF as of 6/30/2013 was $3,494,611.06. On August 2, 2013, the total payment for the five open claims, including legal expenses, was conservatively projected to be $4,635,071.95. This produced a projected shortfall of $1,140,460.89.

As of November 22, 2013, four of the pending claims have been resolved, with one claim remaining open. The four claims were resolved collectively at an amount less than originally anticipated. The current balance as of November 15, 2013 is $589,757.44 and is comprised of the following items shown below:

Statutory transfer FY'05; FY'06; and FY'07	$4,914,412.01
Interest earned since inception	536,518.81
Eight separate claims paid since inception	(4,785,679.77)
Legal and actuarial services since inception	(75,493.61)
Balance	$ 589,757.44

D. Status of Consultant for Cyber Liability RFP

We did issue an RFP for a consultant to assist with determining the need for cyber security insurance. We are in the process of issuing a contract for limited services as a result of the RFP. (Gap analysis, assist in developing RFP for Broker services, assist in determining quantifiable methodology for assessing state agencies for coverage obtained, etc.)

E. Congratulations to Robert Fisher on being nominated President-Elect of the State Risk Insurance Management Association (STRIMA) during the annual conference held in September.

Respectfully submitted,

C. E. Jones Jr.

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

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Ross Taylor
Cabinet Secretary

Chief Financial Officer's Report
November 26, 2013

A. PCard Report

CD copies contain the supporting detail for PCard purchases for the months of July, August and September, 2013. These totals are:

July	$55,160.50
August	$24,546.52
September	$49,087.14

B. Audited Financials and Audit Results and Communications

- The audit of the financial statements by Ernst & Young for the years ended June 30, 2013 and 2012 has been completed and BRIM has received an unqualified opinion.
- Ernst & Young has also presented their audit results and communications to the board.

C. Financial Results for First Quarter

- The financial results presented are for the quarter ended September 30, 2013 and have been adjusted to reflect the actuarially estimated unpaid losses from AON's Risk Funding Study as of September 30, 2013.
- Operating results for the first three months of FY'13 reflect the impact of increases in claims reserves by $3.5 million during the current quarter vs. a $5.5 million increase for the same quarter last year. The reserve additions have negatively impacted claims expenses for both years.
- Actual claims payments for the first three months of FY'13 are about $5.3 million higher than the same quarter last year. The increase in the amount of claims payment activity is the primary reason for the current quarter's unfavorable operating results.
- It is expected that incoming Fed chairman Janet Yellen will continue the Fed's bond-buying program, which is keeping interest rates low, until at least the first quarter of 2014. This will keep yields depressed on U.S. Treasuries and other government backed securities. Equity markets continued to improve during the quarter. The low interest rate environment has prompted investors to reevaluate stocks as a more attractive risk/return alternative to bonds.
- Lower bond yields offset some of the returns in the improving equity market. The net result was lower overall investment earnings for the current quarter vs. the same quarter last year.

D. Comprehensive Annual Financial Report (CAFR)

- BRIM will complete its submission of its CAFR to the Government Financial Officers Association (GFOA) by December 31, 2013.
- BRIM anticipates that it will successfully achieve the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" designation for the year ended June 30, 2013.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

	September 30 2013	September 30 2012
	(in thousands)	
ASSETS		
Short Term Assets		
Cash and Equivalents	$ 17,582	$ 25,042
Advance Deposit with Carrier/Trustee	203,420	207,100
Receivables - Net	4,103	1,449
Prepaid Insurance	3,094	3,209
Total Short Term Assets	228,199	236,800
Long Term Assets		
Investments	137,131	135,891
Total Long Term Assets	137,131	135,891
TOTAL ASSETS	365,330	372,691
LIABILITIES		
Short Term Liabilities		
Accounts payable	552	1,107
Claims Payable	90	589
OPEB Liability	372	374
Agents Commissions Payable	255	257
Unearned Revenue	6,841	5,887
Current Estimated Claim Reserve	53,327	49,463
Total Short Term Liabilities	61,437	57,677
Long Term Liabilities		
Compensated Absences	64	67
Estimated Noncurrent Claim Reserve	93,693	93,015
Total Long Term Liabilities	93,757	93,082
TOTAL LIABILITIES	155,194	150,759
Prior Year Net Assets	213,404	221,515
Current Year Earnings	(3,268)	417
TOTAL NET ASSETS	210,136	221,932
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 365,330	$ 372,691

DRAFT - Unaudited - Management Purposes Only

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

	September 30 2013	September 30 2012
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 13,773	$ 12,328
Less - Excess Insurance	(1,653)	(1,456)
Total Operating Revenues	12,120	10,872
Operating Expenses		
Claims Expense	17,419	14,200
Property & MS Claims Expense	1,280	1,216
Personal Services	353	335
General & Administrative Expense	605	554
Total Operating Expenses	19,657	16,305
Operating Income (Loss)	(7,537)	(5,433)
Nonoperating Revenues		
Investment Income	4,269	5,850
Total Nonoperating Revenues	4,269	5,850
Net Income (Loss)	$ (3,268)	$ 417

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Loss Control Report to the Board
November 2013

We are very pleased to report that two new Loss Control Specialists, Ashlyn Harlan and Shawn Hall, joined us on September 3. We are very pleased to have them as part of our team. They've undergone intense training since their arrival and are already going out into the field to deliver loss control services to our insured.

Our partner, the West Virginia Mutual Insurance Company, has recently completed medical malpractice risk management program surveys at West Virginia University and the Division of Rehabilitation Services. With information gathered from these surveys, we will jointly tailor medical malpractice loss control efforts for these entities as well as the other three entities that receive specific med-mal risk management services.

We completed the evaluations of state agency fiscal year 2015 loss control questionnaire submissions. Almost 100 agencies will receive a premium credit for their participation in our Standards of Participation program.

BRIM and Hartford Steam Boiler sponsored two boiler safety and operational seminars in October with more than 115 people participating. We are quite pleased with the level of interest these seminars generate.

During the month of October, we sent out loss control questionnaires to our Senate Bill #3 insured. The completed questionnaires and supporting documentation are due to BRIM on January 1, 2014.

During the months of August, September, October and November (thru mid-month) Aon conducted 288 inspections and Hartford conducted 1,333. The reports are being processed according to established procedures.

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

9 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.

31 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.

5 Continuing Education Visit

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

Dated: 11-25-2013

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

West Virginia Board of Risk and Insurance Management

2013 audit results and communications

November 26, 2013

Building a better working world

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

November 26, 2013

Dear Members of the Board of Directors and Management,

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

Our audit was designed to express an opinion on the 2013 financial statements as of June 30, 2013. We received the full support and assistance of BRIM's personnel in conducting our audit. Open and candid dialogue with you, as the Board of Directors, is a critical step in the audit process, and in the overall corporate governance process and we appreciate this opportunity to share the insights from our audit with you.

At EY, we continually evaluate the quality of our professionals' work in order to provide you with audit services of the highest quality that will meet or exceed your expectations, and we encourage you to participate in our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool that enables us to monitor and improve the quality of our audit services to BRIM.

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

We look forward to meeting 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 P. Wheeler
Partner

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07 ▸ Accounting policies and areas of audit emphasis

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12 Required communications

21 Industry analysis

Appendices

▸ Appendix A – Letter of representation

▸ Appendix B – Industry trends

2013 EY services

	Services and deliverables
Audit and audit-related services	▸ Consistent with our audit plan, we designed our audit to: – Express an opinion on the financial statements of West Virginia Board of Risk and Insurance Management (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* ▸ Issue a written communication to the Board of Directors about independence matters in accordance with AICPA AU-C Section 260, *The Auditor's Communication with Those Charged with Governance*

Our client service commitment

Our service commitment	Ernst & Young is committed to delivering consistent high-quality client service to BRIM. Our service commitment is centered on our most critical objective of performing a high-quality audit of the basic financial statements. Additionally, we 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

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

Executive summary

Significant 2013 considerations

- Areas of audit emphasis
- Industry analysis
- Industry trends

Key audit results matters

Status

- The 2013 audit is completed and we issued an unqualified opinion on the financial statements.

Scope

- Our audit scope is consistent with the plan communicated to Stephen Schumacher, CFO; we continually re-assessed the need for changes to our planned audit approach throughout the audit.

Results

- The Company's analysis for significant accounting matters is appropriate*
- Reasonable judgments and consistency have been used by management to account for significant accounting estimates
- No uncorrected misstatements or material corrected misstatements were identified
- Outstanding cooperation and communication occurred between the Company and EY

Reporting

- Our Report of Independent Auditors for the audit of the 2013 financial statements of BRIM will be reflective of the new requirements of AICPA Clarified Auditing Standards No. 705 and 706.

* These matters are further described on the following pages within our presentation.

2013 audit results

Accounting policies and areas of audit emphasis

Our audit procedures emphasized testing areas with the highest potential for risk of misstatement (e.g., those accounts, contracts or transactions where we believed there was the greatest potential for risk of material misstatement to the financial statements, whether due to error or fraud, including disclosure items). We considered the effects of current market risk factors on BRIM, and also placed emphasis on those areas requiring subjective determinations by management. Accordingly, our audit procedures at BRIM focused on the following areas:

Key issue/risk area	Summary of procedures and findings
Cash and cash equivalents	▸ We updated our understanding of the cash and cash equivalent process, including performing a walkthrough of the cash disbursements and cash receipts transactions. We tested relevant controls over the identified risks. These controls were mainly transactional level prevent controls and monthly reconciliation detect controls. No exceptions were identified during our testing. ▸ We performed substantive audit procedures, which included confirming bank balances, testing bank reconciliations, and performing cash cut-off procedures. ▸ We reviewed the related financial statement disclosures including the cash and cash equivalent policy and found them to be consistent with US GAAP, industry practices and prior year. ▸ We identified no differences greater than our summary of audit differences threshold.
Advance deposits with insurance company and trustee	▸ We substantively tested advanced deposits as of year end. We confirmed balances with Bank of New York Mellon (BNYM) reviewed the BNYM SOC 1 reports, tested reconciliations and tested the progression of the accounts from prior year to the current year and performed analytical procedures. ▸ We reviewed the related financial statement disclosures including the advance deposits policy and found them to be consistent with US GAAP, industry practices and prior year.

2013 audit results

Accounting policies and areas of audit emphasis

Key issue/risk area	Summary of procedures and findings
Investments and related interest income	‣ We updated our understanding of management's processes related to investments. As BRIM invests in certain WV Board of Treasury Investments (WV BTI) and WV Investment Management Board (WV IMB) investment pools, we obtained an understanding of WV BTI and WV IMB processes by reviewing the work of the other accounting firm (WV BTI) and leveraging the work of another EY engagement team (WV IMB). We also tested BRIM's deposit and withdrawal controls. These controls were mainly transactional level approval controls. No exceptions were identified during our testing. ‣ We performed substantive audit procedures, which included progressing the investment accounts, testing for impairment, performing price testing over a sample of the investment portfolio, and reviewing investment reconciliations. ‣ We reviewed the related financial statement disclosures including the investment policy and found them to be consistent with US GAAP, industry practice and prior year. ‣ We identified no differences greater than our summary of audit difference threshold.
Unpaid claims and claims adjustment expense	‣ We updated our understanding of management's process related to unpaid claims and claims adjustment expense process. We tested transactional level review controls. No exceptions were identified during our testing. ‣ We performed substantive audit procedures, which included engaging our internal specialist to review the assumptions and amounts determined by management's specialists in determining the appropriate the unpaid claim reserve liability. Additionally, we tested the inputs used to determine the liability and completed reconciliations over the information, noting no exceptions. ‣ We reviewed the related financial statement disclosures including the unpaid claims and claims adjustment expense policy and found them to be consistent with US GAAP, industry practice and prior year. ‣ We identified no differences greater than our summary of audit difference threshold.

2013 audit results

Accounting policies and areas of audit emphasis

Key issue/risk area	Summary of procedures and findings
Receivables, premium income and unearned premiums	▸ We updated our understanding of the premium revenue and receivables process. We tested relevant transactional level prevent controls and detect controls. No exceptions were identified during our testing. ▸ We performed substantive audit procedures, which included testing the receivable and unearned premiums, testing the mine subsidence receivable and premium revenue account, and reviewing subsequent cash receipts. ▸ We reviewed the related financial statement disclosures including the receivables and premium income policy and found them to be consistent with US GAAP, industry standards and prior year. ▸ We identified no differences greater than our summary of audit differences threshold.

Shaded areas indicate accounts or transactions identified as having significant risks

Summary of required communications

Provided below is a summary of required communications between the audit team and those charged with governance.

	Communicate when event occurs	Communicate on a timely basis, at least annually
Overview of the planned scope and timing of the audit		Page 27
Auditor's responsibility under generally accepted auditing standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern		Page 27
Our views about the qualitative aspects of the entity's significant accounting practices, including:		
▸ Accounting policies		Page 28
▸ Sensitive accounting estimates		Page 29
▸ Financial statement disclosures and related matters		Page 29
▸ Significant unusual transactions	N/A	
Uncorrected misstatements		Page 30
Material corrected misstatements		Page 30
Significant deficiencies and material weaknesses in internal control	Page 30	Page 30
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements		Page 31
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	Page 31	
Independence matters		Page 31
Representations we are requesting from management		Page 32
Changes to the terms of the audit with no reasonable justification for the change	Page 32	

Summary of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Significant findings and issues arising during the audit relating to related parties	Page 32	
Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management	Page 33	
Significant difficulties encountered during the audit	Page 33	
Disagreements with management	Page 34	
Management's consultations with other accountants	Page 34	
Findings regarding external confirmations	Page 34	
AICPA ethics ruling regarding third-party service providers		Page 35
Other findings or issues regarding the oversight of the financial reporting process	Page 35	

Required communications

Area	Comments
Overview of the planned scope and timing of the audit We provide those charged with governance with an overview of our overall audit scope, including the timing of the audit.	Our audit scope is consistent with the engagement letter and the audit plan communicated to Stephen Schumacher, CFO.
Auditor's responsibility under generally accepted auditing standards and *Government Auditing Standards*, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern The financial statements are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we will express no such opinion. An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements. We also communicate to you matters required by other legal or regulatory requirements.	Our responsibilities are included in our audit engagement agreement. We issued an unqualified opinion on BRIM's basic financial statements as of and for the year ended June 30, 2013. 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*.

Required communications

Area	Comments
Our views about the qualitative aspects of the entity's significant accounting practices, including the accounting policies As part of our discussion about the qualitative aspects of the entity's significant accounting practices, we discuss our views about the entity's application of accounting policies including instances we believe a significant accounting policy, although acceptable under US GAAP, is not appropriate for the particular circumstances of the entity. Our discussion may also include the following: ▸ The initial selection of new, or changes in, significant accounting principles and policies, including the application of new accounting pronouncements. ▸ The effect of the timing and method of adopting a change in accounting policy on current and future earnings of the entity (or expected new accounting pronouncements). ▸ The appropriateness of the accounting policies to the particular circumstances of the entity. ▸ Where acceptable alternative accounting policies exist, the identification of financial statement items that are affected by the implemented significant policies as well as information on accounting policies used by similar entities. ▸ The effect of a significant accounting policy in a controversial or emerging area (or those unique to an industry), particularly when there is a lack of authoritative guidance or consensus.	Management has not selected or changed any significant accounting policies or changed the application of those policies in the current year. We are not aware of any significant accounting policies used by BRIM in controversial or emerging areas or for which there is a lack of authoritative guidance. We have included a discussion of significant accounting policies within the section titled "Accounting policies and areas of audit emphasis" on pages 7-9.

Required communications

Area	Comments
Our views about the qualitative aspects of the entity's significant accounting practices: (1) Management's process used to develop particularly sensitive accounting estimates, our conclusions regarding the reasonableness of such estimates and the basis for those conclusions. Our discussion may also include the following: ▸ Risks of material misstatement ▸ Indicators of possible management bias ▸ Disclosure of estimation uncertainty in the financial statements (2) Financial statement disclosures and related matters which may include the following: ▸ The issues involved and related judgments made, in formulating sensitive financial statement disclosures ▸ The overall neutrality, consistency and clarity of financial statement disclosures ▸ The potential effect of significant risks and exposures and uncertainties on the financial statements ▸ The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized ▸ The factors affecting asset and liability carrying value ▸ The selective correction of misstatements (3) Significant unusual transactions (i.e., those outside the normal course of business for the entity or those that appear unusual due to timing, size, or nature) and the policies or practices management has used to account for those transactions.	We have provided our views regarding accounting estimates in the section titled "Accounting policies and areas of audit emphasis" on pages 7-9.

Required communications

Area	Comments
Uncorrected misstatements We discuss with those charged with governance uncorrected misstatements and the effect that they may have on our opinion in the auditor's report. We also discuss the effect of uncorrected misstatements related to prior periods on the significant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, we discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including the possible implications in relation to future financial statements.	No uncorrected misstatements were identified in connection with our audit of the BRIM's financial statements as of and for the year ended June 30, 2013.
Material corrected misstatements We discuss with those charged with governance material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In addition, we may discuss other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.	No corrected misstatements were identified in connection with our audit of BRIM's financial statements as of and for the year ended June 30, 2013.
Significant deficiencies and material weaknesses in internal control We communicate all significant deficiencies and material weaknesses in internal control that were identified during the course of our audit.	There were no material weaknesses identified as a result of our audits of BRIM.

Required communications

Area	Comments
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements Our auditor's report on the financial statements relates only to the financial statements and the accompanying notes. If the entity 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.	As required by GASB, BRIM has presented required 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. We have applied certain limited procedures, and we do not express an opinion or provide any assurance on the information because of our limited procedures. 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 2013 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2013 financial statement taken as a whole.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements We communicate with those charged with governance fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.	We are not aware of any matters that require communication.
Independence matters Although the auditor's report affirms our independence, in certain situations, we discuss with those charged with governance circumstances of relationships (e.g., financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in our professional judgment may reasonably be thought to bear on independence and that we gave significant consideration to in reaching the conclusion that independence has not been impaired.	We are not aware of any matters, that in our professional judgment, would impair our independence. Relating to our audit of the financial statements of BRIM as of June 30, 2013, 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.

Required communications

Area	Comments
Representations we are requesting from management We discuss with those charged with governance representations we are requesting from management.	We have obtained from management a letter of representations related to the audit and a copy of the letter of representations is included in Appendix A.
Changes to the terms of the audit with no reasonable justification for the change We discuss with those charged with governance any changes to the terms of the audit engagement where there is no reasonable justification for the change and we are not permitted by management to continue the original audit.	None.
Significant findings and issues arising during the audit relating to related parties We discuss with those charged with governance any significant findings and issues arising during the audit relating to the entity's related parties. Such matters may include the following: ▶ Non-disclosure (whether intentional or not) by management of related parties or significant related party transactions ▶ The identification of significant related party transactions that have not been appropriately authorized and approved ▶ Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions in accordance with US GAAP ▶ Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions ▶ Difficulties in identifying the party that ultimately controls the entity	None.

Required communications

Area	Comments
Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management We discuss with those charged with governance any significant matters that were discussed with, or the subject of correspondence with, management, including: ▸ Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatements. ▸ Discussions or correspondence in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards, the scope of the audit, financial statement disclosures and the wording of the auditor's report. We communicate those major professional issues we discussed with management, prior to our being hired as the auditors, during the entity's two most recently completed fiscal years and any subsequent interim period.	None.
Significant difficulties encountered during the audit We inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit which may include such matters as: ▸ Significant delays in management providing required information ▸ An unnecessarily brief time within which to complete the audit ▸ The unavailability of expected information ▸ Restrictions imposed on us by management ▸ Management's unwillingness to provide information about its plans for dealing with the adverse effects of the conditions or events that lead us to believe there is substantial doubt about the entity's ability to continue as a going concern	None.

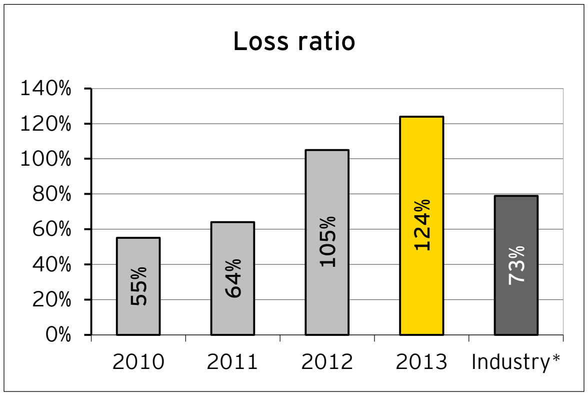
Required communications

Area	Comments
Disagreements with management We discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or our auditor's report. For purposes of this discussion, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.	None.
Management's consultations with other accountants When we are aware that management has consulted with other accountants about accounting or auditing matters, we discuss with those charged with governance our views about significant matters that were the subject of such consultation.	None of which we are aware.
Findings regarding external confirmations We discuss with those charged with governance any instances where management has not permitted us to send confirmation requests, or where we cannot obtain relevant and reliable audit evidence from alternative procedures.	None.

Required communications

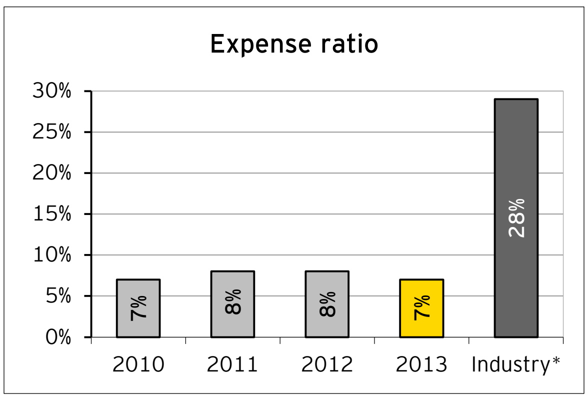
Area	Comments
AICPA ethics ruling regarding third-party service providers AICPA Ethics Ruling No. 112 under Rule 102, *Integrity and Objectivity*, requires that we inform you whenever we use a third-party service provider in providing professional services to the entity. The Rule has broadly defined "third-party service provider" to include an individual who is not employed by our US firm. Accordingly, third-party service providers might include, but not be limited to, the following examples: non-US personnel who work for EY affiliate firms (e.g., Ernst & Young United Kingdom), non-US personnel working in the US on a foreign secondment and non US personnel working at EY shared service centers.	From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Company or its affiliates directly, although EY alone will remain responsible to you for the Audit Services, and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.
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.

Industry analysis
Ratio comparison



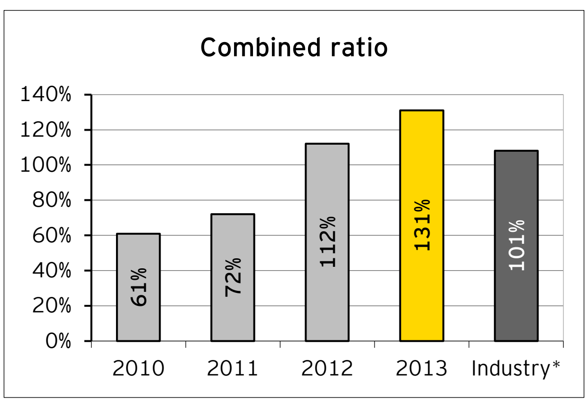
The loss ratio measures claims cost experience. It is derived by dividing claims and claims adjustment expenses by earned premiums. This ratio can soar during a period of heavy catastrophe losses.

The 2013 loss ratio has increased since the prior year due to both an increase in expenses ($622 thousand) and a drop in premiums ($3.9 million). The deterioration in the ratio is due to the decrease in revenues while claims expense have increased. Additionally, in 2012 and 2013, there were two large storms which caused widespread damage and is the primary drivers of the increased expense.



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 2013 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 2013 due to the loss ratio factor discussed above.

Industry data obtained from Standard & Poor's Industry Surveys, Insurance: Property/Casualty, March 2013

Appendix A

Letter of representation

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

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

(304) 766-2646 ADMINISTRATION
(304) 744-7120 FAX
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Earl Ray Tomblin
Governor

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

Ross Taylor
Cabinet Secretary

October 18, 2013

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

In connection with your audits of the basic financial statements of West Virginia Board of Risk and Insurance Management (BRIM or the Agency) as of June 30, 2013 and 2012 and for years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Agency 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 believe the financial statements referred to in paragraph one above are fairly presented in conformity with US generally accepted accounting principles applied on a basis consistent with that of the preceding years.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within BRIM from whom you determined it necessary to obtain audit evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

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

Internal control

There are no material transactions 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 directors, committees of directors and important management committees from the beginning of the period covered by the financial statements to the date of this letter are as follows:

Board Meeting – August 28, 2012

Board Meeting – December 4, 2012

Board Meeting – February 26, 2013

Board Meeting – May 28, 2013

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, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates or current vulnerabilities due to material concentrations that have not been disclosed.

Ownership and pledging of assets

The Agency has satisfactory title to all assets appearing in the plan net assets. 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 the Agency has satisfactory title appear in the plan net position.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the balance sheet dates or other types of arrangements not constituting sales. All revenue recognized as of the balance sheet dates has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) 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 those dates.

We have adequately disclosed a description of our major revenue-generating services, the types of arrangements (including multiple-element arrangements) used to deliver these services, and a description of the revenue recognition policies applicable to these services.

Cash equivalents and investments

BRIM has certain cash equivalents in pools of the West Virginia Bureau of Treasury Investments (BTI) and West Virginia Investment Management Board (IMB). The management of these entities is not under BRIM's control. Cash equivalents and investment are reported by the BTI and IMB at fair value and are accounted for by BRIM accordingly, with changes in the 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.

Adequate disclosures required under GASB 40 for deposits and investments have been included in the financial statements for risk disclosures. To our knowledge, none of the Agency's investments has permanently declined in value to an amount less than the carrying value in the financial statements.

Investments are properly valued. To our knowledge, none of BRIM's investments has permanently declined in value to an amount less than the carrying value in the financial statements. Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

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.

Claim liabilities

The liabilities for unpaid claims (and claim adjustment expenses) include estimates of amounts due on reported claims and claims that have been incurred but that were not reported as of June 30, 2013 and 2012. Such estimates are based on actuarial projections applied to historical claim payment data. Such liabilities represent the Agency's best estimate of amounts that are reasonable and adequate to discharge the Agency's obligations for claims incurred but unpaid as of June 30, 2013 and 2012.

The liabilities for unpaid claims and claims adjustment expense 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. Although the estimate of the liability for unpaid claims and claims adjustments expenses at June 30, 2013 and 2012, are reasonable in the circumstances, it is possible that the Agency'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 from the estimates included in the Agency's financial statements.

The loss reserve specialists used by management in estimating the loss and loss adjustment expense reserves had a sufficient level of competence and experience in loss reserving, including knowledge about the type of insurance for which a reserve has been established and an understanding of the appropriate methods for calculating such reserve estimates. 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.

Reinsurance

The reinsurance contracts provided to you by the Agency represent all of the Agency's agreements with respect to its ceding and assuming reinsurance activities, and there are no modifications, either written or oral, of the terms of the Agency's reinsurance contracts or additional reinsurance agreements that have not been provided to you.

Related party transactions

We have disclosed to you the identity of the Agency's related parties and all the related party relationships and transactions of which we are aware.

Transactions with related parties, as defined in Government Accounting Standards No. 56, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, guarantees, non-monetary transactions and transactions for non-consideration have been properly recorded and 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 basic 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 GAS 62, *Accounting for Contingencies*.

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 GAS 62 *Contingencies*, nor are there any accruals for loss contingencies included in the Statement of Plan Position or gain contingencies reflected in earnings that are not in conformity with the provisions of GAS 62.

Pension and other postretirement benefits

We have disclosed to you all significant pension benefits promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes that constitute the plan. The actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are determined by State statute and the Consolidated Public Retirement Board.

We have disclosed to you all significant postretirement benefits other than pensions (OPEBs) promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes, that constitute the plan for each significant OPEB. The actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes, including prescribed assumptions, represent our best estimate of future conditions and are appropriate in the circumstances.

Use of the Work of a Specialist

We agree with the findings of specialists in evaluating the incurred but not reported ("IBNR") liability 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.

Oral or Written guarantees

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

Fraud

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Agency'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 the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Agency.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Agency 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 Agency's audit.

Conflicts of interest

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

Required Supplementary Information

We acknowledge our responsibility for the required supplementary information including Management's Discussion and Analysis and the Ten Year Claims Development Information, 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 used are reasonable. .

Supplementary Information

We are responsible for the presentation of the Closing Book Forms (the "supplementary information") in accordance with Financial Accounting and Reporting Section of the State of West Virginia (FARS). We believe the supplementary information, including its form and content, is fairly presented in accordance with FARS criteria. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Other

We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.

BRIM does not have any component units or joint ventures.

The financial statements properly classify all funds and activities.

Components of net position (net investment in capital assets; restricted; and unrestricted), nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance 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.

Provisions for uncollectible receivables have been properly identified and recorded.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

There are no special or extraordinary items.

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

Investments, derivative transactions, and land and other real estate held by endowments are properly valued.

Our policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available, determines the fund balance classifications for financial reporting purposes.

Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position was properly recognized under the policy.

Subsequent events

Subsequent events have been evaluated and classified as recognized or nonrecognized through October 18, 2013.

Subsequent to June 30, 2013, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or are of such significance in relation to the Agency's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of the Agency.

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* and was, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the Agency taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,

Charles E. Jones Jr.

Charles E. Jones, Chief Executive Officer

Stephen W. Schumacher, Chief Financial Officer

Stephen W Panaro

Stephen W. Panaro, Controller

Beginning August 6th, 2013

Appendix B

Industry trends

Industry trends

Source: Standard & Poor's Industry Surveys, Insurance: Property/Casualty, March 2013

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. In addition, following several years of heavy storm and catastrophe losses in 2011–12, industry premium rates have started to firm. Many insurers reported that premium pricing strength has continued and momentum for an upturn in pricing increased as 2012 progressed. Heading into 2013, the degree to which these pricing gains translate into revenue growth will depend on overall demand for insurance. An economic recovery in the US (even a modest one) should help the demand curve for insurance. 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.

Although claims from Superstorm Sandy put a crimp in fourth-quarter earnings for many insurers, their full-year 2012 results improved compared with the catastrophe-laden 2011. Investment results in 2011 and 2012 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

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	NET PREMIUMS EARNED	‡LOSS RATIO (%)	†EXPENSE RATIO (%)	DIVIDEND RATIO (%)	COMBINED RATIO (%)
	MILLIONS OF	DOLLARS				
2012*	348,997	335,307	72.8	27.8	0.3	100.9
2011*	334,858	324,140	81.5	28.0	0.3	109.8
2011	438,031	434,449	79.3	28.4	0.4	108.1
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

*Nine 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)

ITEM	2010	2011	NINE MOS. 2011	NINE MOS. 2012
Policyholders' surplus—beg. of period	511.4	559.2	559.2	553.8
Operating income	38.2	15.4	3.7	30.6
Realized capital gains	6.6	7.0	5.5	3.0
Income taxes	5.9	(3.0)	(0.9)	(6.6)
Net after-tax income	35.2	19.5	8.4	27.0
Unrealized capital gains (loss)	16.0	(4.4)	(12.7)	17.2
Stockholder dividends & other	(31.4)	(25.9)	(17.0)	(16.6)
New funds	27.5	2.3	1.6	1.7
Misc. surplus change	0.6	3.1	2.6	0.5
Policyholders' surplus—end of period	559.2	553.8	542.0	583.5

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 decline in 2012 after surging 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 $16.2 billion in the first three quarters of 2012, down a significant 50% from $32.8 billion in the year-ago period. In 2011, such losses amounted to $33.6 billion, up a considerable 135% 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 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 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.

According to data provided by Munich Re on January 3, 2013, losses related to natural catastrophes worldwide totaled $160 billion in 2012, of which $65 billion were insured losses. These losses were much lower than the record levels of 2011, when there were $400 billion in overall losses and $119 billion in insured losses. While the $65 billion in insured losses in 2012 was above the ten-year average of $50 billion for insured losses, the $160 billion total losses were slightly lower than the average of $165 billion for overall losses. Losses in 2012 would have been very low had it not been for Superstorm Sandy and the summer-long drought in the US. With Sandy recording the highest insured losses in 2012 at $25 billion, the US accounted for a higher proportion in 2012 of both global natural catastrophe overall losses (67% versus 32% average) and global natural catastrophe insured losses (90% versus 57% average).

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.

According to a press release issued by the National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center on November 29, 2012, the 2012 Atlantic hurricane season (June1–November 30) witnessed a significant level of activity, with 19 named storms, of which 10 developed into hurricanes and two became major hurricanes. This compares with an annual average of 12 storms, six hurricanes, and three major hurricanes. Further, given the count, duration, and intensity of all storms and hurricanes in the 2012 season, the NOAA labeled it as an "above-normal" hurricane season.

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. Finally, on July 6, 2012, President Obama signed into law the Biggert-Waters Flood Insurance Reform Act of 2012, which extends (with certain changes) the NFIP for five years through September 30, 2017.

Further, on January 4, 2013, the Congress passed legislation authorizing a $9.7 billion increase in the NFIP's borrowing authority to allow the NFIP to service Sandy-related flood claims. Two days later, President Obama signed the legislation into law, thereby increasing the NFIP's borrowing authority to $30.425 billion from $20.725 billion.

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.

Industry trends

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.

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. Further, on February 5, 2013, the House introduced legislation to extend TRIA through the end of 2019. However, many insurance industry experts caution that an automatic renewal of TRIA is not a sure thing.

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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1311-1162096

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, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

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West Virginia Board of Risk and Insurance Management

Financial Statements, Required Supplementary Information, and
Other Financial Information

Years Ended June 30, 2013 and 2012

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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 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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the BRIM's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM as of June 30, 2013 and 2012, 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.

Basis of Presentation

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, 2013 and 2012, and the changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 4 to 10 and the supplemental schedule of Ten-Year Claims Development 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 which 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BRIM's basic financial statements. The FARS closing book forms listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 18, 2013, on our consideration of BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering BRIM's internal control over financial reporting and compliance.

Ernst + Young LLP

October 18, 2013

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, 2013, 2012, and 2011. 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 non-renewed 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 Position* – This statement presents information reflecting BRIM's assets, liabilities, and net position 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 Position* – 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 statement of net position and changes in net position as of and for the years ended June 30, 2013, 2012, and 2011:

				Change 2013–2012		Change 2012–2011	
	2013	**2012**	**2011**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and cash equivalents	**$ 19,723**	$ 25,568	$ 23,231	$ (5,845)	(23.0)%	$ 2,337	10.0%
Advance deposits with carrier/trustee	**201,613**	200,949	189,211	664	0.3	11,738	6.0
Receivables	**4,001**	996	934	3,005	302.0	62	7.0
Prepaid insurance	**7**	22	38	(15)	(68.0)	(16)	(42.0)
Total current assets	**225,344**	227,535	213,414	(2,191)	(1.0)	14,121	7.0
Noncurrent investments	**139,875**	138,164	140,522	1,711	1.0	(2,358)	(2.0)
Total assets	**365,219**	365,699	353,936	(480)	0.1	11,763	3.0
Estimated claim expense	**49,793**	47,719	43,259	2,074	4.0	4,460	10.0
Unearned premiums	**6,757**	5,494	6,095	1,263	23.0	(601)	(10.0)
Agent commissions payable	**861**	1,026	1,097	(165)	(16.0)	(71)	(6.0)
Accrued expenses	**603**	611	614	(8)	(1.0)	(3)	(0.5)
Total current liabilities	**58,014**	54,850	51,065	3,164	6.0	3,785	7.0
Estimated claim expense	**93,775**	89,267	82,968	4,508	5.0	6,299	8.0
Compensated absences	**64**	67	75	(3)	(4.0)	(8)	(11.0)
Total noncurrent liabilities	**93,839**	89,334	83,043	4,505	5.0	6,291	8.0
Total liabilities	**151,853**	144,184	134,108	7,669	5.0	10,076	8.0
Net position:							
Restricted	**49,372**	45,599	43,061	3,773	8.0	2,538	6.0
Unrestricted	**163,994**	175,916	176,767	(11,922)	(7.0)	(851)	0.5
Net position	**$ 213,366**	$ 221,515	$ 219,828	$ (8,149)	(4.0)	$ 1,687	1.0

	2013	2012	2011	Change 2013–2012 Amount	Percent	Change 2012–2011 Amount	Percent
Premiums	**$ 47,134**	$ 51,046	$ 52,538	$ (3,912)	(8.0)%	$ (1,492)	(3.0)%
Less excess coverage	**(5,825)**	(5,386)	(6,075)	(439)	8.0	689	11.0
Net operating revenues	**41,309**	45,660	46,463	(4,351)	(10.0)	(803)	(2.0)
Claims and claims adjustment expense	**54,018**	53,396	33,598	622	1.0	19,798	59.0
General and administrative	**3,275**	3,892	4,026	(617)	(16.0)	(134)	(3.0)
Total operating expenses	**57,293**	57,288	37,624	5	–	19,664	52.0
Operating (loss) income	**(15,984)**	(11,628)	8,839	(4,356)	37.0	(20,467)	(232.0)
Nonoperating revenues:							
Investment income	**7,835**	13,315	18,782	(5,480)	(41.0)	(5,467)	(29.0)
Total nonoperating revenues, net	**7,835**	13,315	18,782	(5,480)	(41.0)	(5,467)	(29.0)
Changes in net position	**(8,149)**	1,687	27,621	(9,836)	(583.0)	(25,934)	(94.0)
Total net position – beginning	**221,515**	219,828	192,207	1,687	1.0	27,621	14.0
Total net position – end	**$ 213,366**	$ 221,515	$ 219,828	$ (8,149)	(4.0)	$ 1,687	1.0
Total revenues	**$ 49,144**	$ 58,975	$ 65,245	$ (9,831)	(17.0)	$ (6,270)	(10.0)
Total expenses	**$ 57,293**	$ 57,288	$ 37,624	$ 5	–	$ 19,664	52.0

- Total assets decreased by $480 in 2013 and increased by $11,763 in 2012. The decrease in 2013 is due to decreased premiums, increased claims expense and lower investment earnings. The increase for 2012 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 2013 and 2012, exceeding the actual claims payments made for both years.

- Total liabilities increased $7,669 in 2013 and $10,076 in 2012. Estimated claims expense increased in 2013 and 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.

- Several factors contributed to the $8,149 decrease in total net position for 2013 and the $1,687 increase for 2012. In 2013, investment returns were lower than 2012, and an increase in claims liability caused the decrease of total position by $8,149. The increase in estimated claims expense liability grew by a combined $6,582 for 2013, based on the current year-end actuarial study. The investment returns of 2012 offset the increase in claims liability which led to the increase in net position. Also included within the net position category are restricted positions totaling $49,372 in 2013, $45,599 in 2012, and $43,061 in 2011 for programs that provide mine subsidence coverage to the general public per the West Virginia State Code and that provide medical malpractice tail coverage for the House Bill 601 Program.

- Total net operating revenues decreased by $4,351 in 2013 and $803 in 2012. The favorable claims trend developments in prior years' outstanding claims reserve has allowed BRIM to provide a reduction in premium rates to policyholders 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 $57,293 in 2013 from $57,288 in 2012. Claims and claims adjustment expense increased year-over-year by $622.

- Nonoperating revenues decreased by $5,480 in 2013 and $5,467 in 2012. 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 2013 to 2012 and from 2012 to 2011 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 deteriorated from the prior year. Current-year reserves increased while there was a small reduction in prior-year reserves which helped in part offset lower investment earnings. The overall increase in claims and claims adjustment expense caused the largest percentage decrease of net position for the current year, reflecting a net position total of $213,366 at June 30, 2013. 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 position 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 2012 to 2013, the liability for unpaid claims increased from $136,986 to $143,569. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2005 through 2013.

House Bills 601 and 2122

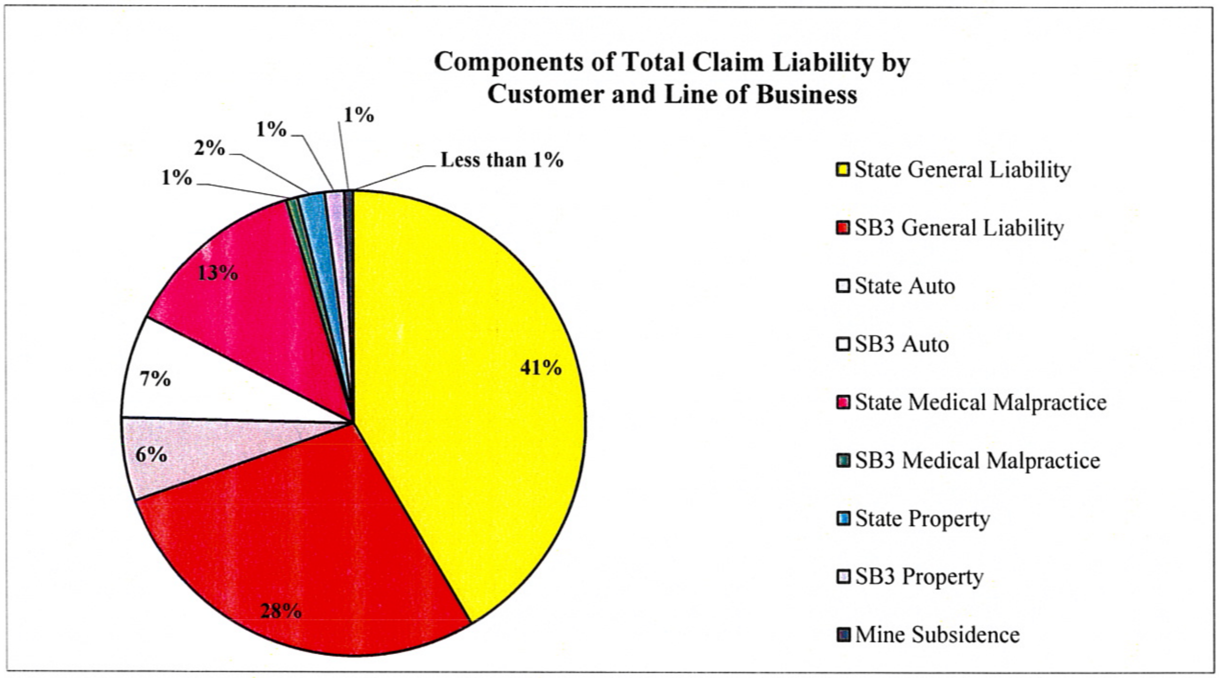
In December 2001, the West Virginia Legislature passed House Bill 601, which authorized BRIM to provide medical malpractice and general liability coverage to health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies' 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 $143,569. 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 Position by Line of Business

BRIM has had no deficiency in net position 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 is 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 2013 and 2012 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 2013, BRIM withdrew $13 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 2013, 2012 and 2011 benefited from prior years' reserve releases, both 2013 and 2012 saw overall net increases 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 Net Position

	June 30 2013	June 30 2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **12,282**	$ 14,718
Advance deposits with insurance company and trustee	**201,613**	200,949
Receivables	**3,309**	447
Prepaid insurance	**7**	22
Restricted cash and cash equivalents	**7,441**	10,850
Restricted receivables:		
Premiums due from other entities	**692**	549
Total current assets	**225,344**	**227,535**
Noncurrent assets:		
Equity position in internal investment pools	**96,487**	102,175
Restricted investments	**43,388**	35,989
Total noncurrent assets	**139,875**	138,164
Total assets	**365,219**	365,699
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	**49,793**	47,719
Unearned premiums	**6,757**	5,494
Agent commissions payable	**861**	1,026
Accrued expenses and other liabilities	**603**	611
Total current liabilities	**58,014**	54,850
Estimated unpaid claims and claims adjustment expense, net of current portion	**93,775**	89,267
Compensated absences	**64**	67
Total noncurrent liabilities	**93,839**	89,334
Total liabilities	**151,853**	144,184
Net position:		
Restricted by State code for House Bill 601 Program and mine subsidence coverage	**49,372**	45,599
Unrestricted	**163,994**	175,916
Net position	$ **213,366**	$ 221,515

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Operating revenues		
Premiums	**$ 47,134**	$ 51,046
Less excess coverage/reinsurance premiums	**(5,825)**	(5,386)
Net operating revenues	**41,309**	45,660
Operating expenses		
Claims and claims adjustment expense	**54,018**	53,396
General and administrative	**3,275**	3,892
Total operating expenses	**57,293**	57,288
Operating loss	**(15,984)**	(11,628)
Nonoperating revenues		
Investment income	**7,835**	13,315
Net nonoperating revenues	**7,835**	13,315
Changes in net position	**(8,149)**	1,687
Total net position, beginning of year	**221,515**	219,828
Total net position, end of year	**$ 213,366**	$ 221,515

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Year Ended June 30 2013	Year Ended June 30 2012
	(In Thousands)	
Operating activities		
Receipts from customers	**$ 39,623**	$ 45,028
Payments to employees	**(1,308)**	(1,388)
Payments to suppliers	**(2,183)**	(2,603)
Payments to claimants	**(47,435)**	(42,637)
Deposits to advance deposit with insurance company and trustee	**(52,247)**	(56,130)
Withdrawals from advance deposit with insurance company and trustee	**51,581**	44,394
Net cash used in operating activities	**(11,969)**	(13,336)
Investing activities		
Purchase of investments	**(25,357)**	(18,752)
Sale of investments	**30,460**	22,348
Net investment earnings	**1,021**	12,077
Net cash provided by investing activities	**6,124**	15,673
Net (decrease) increase in cash and cash equivalents	**(5,845)**	2,337
Cash and cash equivalents, beginning of year	**25,568**	23,231
Cash and cash equivalents, end of year	**$ 19,723**	$ 25,568
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 12,282**	$ 14,718
Restricted cash and cash equivalents	**7,441**	10,850
	$ 19,723	$ 25,568

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (15,984)**	$ (11,628)
Adjustments to reconcile operating loss to net cash used in operating activities		
Increase in advanced deposits	**(664)**	(11,738)
Increase in premiums receivable, net	**(2,964)**	(46)
Decrease in prepaid insurance	**15**	16
Increase in estimated liability for unpaid claims and claims adjustment expense	**6,582**	10,759
Increase (decrease) in other liabilities	**1,262**	(98)
Decrease in unearned premiums	**(216)**	(601)
Total adjustments	**4,015**	(1,708)
Net cash used in operating activities	**$ (11,969)**	$ (13,336)
Noncash activities		
Increase in fair value of investments	**$ 6,814**	$ 1,238

See accompanying notes.

1. General ***(Amounts referenced in this note related to insurance coverages are actual dollars)***

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

(Dollars in Thousands)

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, 2013 and 2012, 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 $18,045 and $23,994 at June 30, 2013 and 2012, 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.

BRIM deposits monies with the Bank of New York (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. 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 it has 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 position 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 Position

Restricted net position is net position that is 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 position are available, BRIM first utilizes restricted net position 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, 2013				June 30, 2012			
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+**	**$ 243,538**	**9.76**	P-1	A-1	$ 853,470	30.62%
	P-1	**A-1**	**726,857**	**29.12**	–	–	–	–
Corporate bonds and notes	**Aa2**	**AA-**	**–**	**–**	Aa2	AA-	15,000	0.54
	Aa3	**AA-**	**10,000**	**0.40**	Aa3	AA-	13,000	0.47
	Aa3	**A+**	**–**	**–**	Aa3	A+	8,000	0.29
			10,000	**0.40**			36,000	1.30
U.S. agency bonds	**Aaa**	**AA+**	**66,603**	**2.67**	Aaa	AA+	189,691	6.80
U.S. Treasury notes	**Aaa**	**AA+**	**279,755**	**11.21**	Aaa	AA+	330,865	11.87
U.S. Treasury bills	**P-1**	**A-1+**	**34,993**	**1.40**	Aaa	AA+	237,978	8.54
Negotiable certificates of deposit	**Aa1**	**AA-**	**10,000**	**.40**			–	–
	Aa2	**A+**	**9,000**	**.36**			–	–
	Aa3	**AA-**	**15,000**	**.60**			–	–
	P-1	**A-1+**	**50,000**	**2.00**			–	–
	P-1	**A-1**	**160,000**	**6.41**	P-1	A-1	110,000	3.95
	P-2	**A-1**	**15,000**	**.60**			–	–
U.S. agency discount notes	**P-1**	**A-1+**	**445,784**	**17.86**	P-1	A-1+	738,706	26.50
Money market funds	**Aaa**	**AAAm**	**200,012**	**8.02**	Aaa	AAAm	200,054	7.18
Repurchase agreements								
U.S. Treasury notes	**Aaa**	**AA+**	**188,826**	**7.57**	Aaa	AAA	90,204	3.24
U.S. agency notes	**Aaa**	**AA+**	**40,500**	**1.62**	Aaa	AAA	–	–
			229,326	**9.19**			90,204	3.24
			$ 2,495,868	**100.00%**			$ 2,786,968	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, 2013 and 2012, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

At June 30, 2013 and 2012, 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.

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:

	June 30, 2013		June 30, 2012	
Investment Type	**Fair Value**	**WAM Days**	**Fair Value**	**WAM Days**
Repurchase agreements	$ **229,326**	**3**	$ 90,204	3
U.S. Treasury notes	**279,755**	**132**	330,865	122
U.S. Treasury bills	**34,993**	**77**	237,978	37
Commercial paper	**970,395**	**43**	853,470	35
Certificates of deposit	**259,000**	**66**	110,000	10
U.S. agency discount notes	**445,784**	**47**	738,706	44
Corporate bonds and notes	**10,000**	**60**	36,000	48
U.S. agency bonds/notes	**66,603**	**139**	189,691	68
Money market funds	**200,012**	**1**	200,054	1
Total rated investments	$ **2,495,868**	**52**	$ 2,786,968	46

BRIM's amount invested in the West Virginia Money Market Pool of $21,515 included in cash and cash equivalents, at June 30, 2013, and $23,994 at June 30, 2012, represents approximately 1% of total investments in this pool.

3. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

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

Investments

Board of Risk and Insurance Management Fund

This fund was specifically designed for BRIM by WVIMB based on BRIM's unique cash flow needs. BRIM is the only State agency participating in this fund and owns 100% of the total assets in the fund. The fund invests, along with other agencies, in the following WVIMB investment pools: Domestic Large Cap Equity pool, Domestic Non-Large Cap Equity pool, International 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 equity	10%
International equity	10
Total equity	20
Fixed income	80

(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:

	2013		2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Large cap domestic	**$ 8,578**	**$ 10,461**	$ 6,173	$ 9,969
Non-large cap domestic	**2,848**	**3,727**	3,348	3,376
International equity	**8,098**	**9,381**	5,118	9,310
International nonqualified	**3,972**	**5,130**	2,678	4,327
Total return fixed income	**40,280**	**40,444**	31,033	40,623
Core fixed income	**22,303**	**21,674**	17,760	21,966
Hedge fund	**25,853**	**28,642**	24,748	27,434
TIPS (Treasury Inflation Protection Securities)	**13,942**	**13,229**	12,697	14,151
Short-term fixed income	**7,187**	**7,187**	7,008	7,008
	$ 133,061	**$ 139,875**	$ 110,563	$ 138,164

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

	2013	2012
Investment income:		
Interest income including realized gains/losses on sale of securities	**$ 2,173**	$ 12,077
Unrealized gain on investments	**5,662**	1,238
Total investment income	**$ 7,835**	$ 13,315

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.

(Dollars in Thousands)

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, 2013 and 2012, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the large cap domestic pool of $10,461 and $9,969 at June 30, 2013 and 2012, 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, 2013 and 2012, 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 $3,727 and $3,376 at June 30, 2013 and 2012, represents approximately 0.4% of total investments in this pool.

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:

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

	June 30, 2013			June 30, 2012		
Currency	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian dollar	$ 58,914	$ 1	$ 58,915	$ 63,284	$ 143	$ 63,427
Brazil cruzeiros real	73,031	483	73,514	77,642	3,441	81,083
British pound	226,351	1,732	228,083	217,785	404	218,189
Canadian dollar	91,289	321	91,610	83,701	75	83,776
Czech koruna	12,966	–	12,966	6,230	–	6,230
Danish krone	11,122	–	11,122	6,858	24	6,882
Egyptian pound	4,704	–	4,704	–	–	–
Emirati Dirham	4,861	505	5,366	8,048	–	8,048
Euro	321,667	1,921	323,588	289,347	1,256	290,603
Hong Kong dollar	174,653	1,533	176,186	152,281	697	152,978
Hungarian forint	5,798	1	5,799	7,620	1	7,621
Indian rupee	58,591	162	58,753	35,768	380	36,148
Indonesian rupiah	10,747	123	10,870	8,313	145	8,458
Israeli shekel	13,434	92	13,526	13,413	103	13,516
Japanese yen	250,440	2,065	252,505	215,250	9,319	224,569
Malaysian ringgit	9,405	337	9,742	5,067	126	5,193
Mexican new peso	31,774	272	32,046	22,072	24	22,096
New Taiwan dollar	42,197	2,288	44,485	47,733	2,300	50,033
New Zealand dollar	5,779	135	5,914	7,513	58	7,571
Norwegian krone	21,859	1,120	22,979	21,877	28	21,905
Pakistani rupee	1,734	–	1,734	922	–	922
Philippine peso	7,640	21	7,661	7,751	75	7,826
Polish zloty	5,565	43	5,608	6,708	9	6,717
Qatari riyal	1,561	–	1,561	–	–	–
Singapore dollar	17,626	37	17,663	20,786	46	20,832
South African rand	47,500	2,432	49,932	51,153	57	51,210
South Korean won	155,163	1,070	156,233	128,548	2,374	130,922
Swedish krona	17,104	364	17,468	16,126	71	16,197
Swiss franc	62,012	–	62,012	62,607	6	62,613
Thailand baht	19,336	–	19,336	17,882	–	17,882
Turkish lira	32,902	45	32,947	42,295	48	42,343
Total	$ 1,797,725	$ 17,103	$ 1,814,828	$ 1,644,580	$ 21,210	$ 1,665,790

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 $417,554 and $257,253 at June 30, 2013 and 2012, respectively. BRIM's amount invested in the international equity pool of $9,381 and $9,310 at June 30, 2013 and 2012, represents approximately 0.4% of total investments in this pool.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

International Nonqualified Equity Pool

This pool holds a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2013 and 2012, was $122,091 and $87,453, 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 $5,130 and $4,327 at June 30, 2013 and 2012, respectively, represents approximately 4.0% and 5.0%, respectively, 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, 2013				June 30, 2012			
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Corporate bonds	**Baa2**	**BBB**	**$ 728,766**	**31.7**	Baa2	BBB	$ 754,176	33.7%
U.S. Treasury issues	**Aaa**	**AA**	**362,481**	**13.9**	Aaa	AA+	309,610	13.9
Corporate asset-backed issues	**Ba1**	**AA-**	**44,433**	**1.9**	Aa2	AA-	38,005	1.7
Corporate CMO	**Caa**	**CCC**	**20,767**	**0.9**	B	B	21,589	1.0
Corporate preferred security	**Ba2**	**BB**	**8,757**	**0.4**	Ba2	BB	8,572	0.4
U.S. Governement Agency MBS	**Aaa**	**AA**	**342,200**	**14.4**	Aaa	AA+	340,717	15.3
U.S. Government CMO Agency	**Aaa**	**AA**	**61,696**	**2.6**	Aaa	AA+	32,536	1.5
Municipal bonds	**A2**	**BBB**	**80,320**	**3.4**	A1	A	93,246	4.2
Short-term issue	**Aaa**	**AAA**	**171,036**	**7.2**	Aaa	AAA	184,079	8.2
U.S. Government Agency discount note	**Aaa**	**AA**	**4,718**	**0.2**			–	–
U.S. Government agency TBAs	**Aaa**	**AA**	**58,879**	**2.5**			–	–
Foreign government bond	**Baa1**	**A**	**6,879**	**0.3**	Baa1	A-	6,293	0.3
Total rated investments			**$ 1,890,932**	**79.4**			$ 1,788,823	80.2%

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2013, unrated securities include commingled investment pools of $474,821, investments made with cash collateral for securities loaned valued at 13,882, and option contract purchased valued at $176. These unrated securities represent 20.6% of the fair value of the pool's investments. 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.

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, 2013 and 2012, 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, 2013 and 2012, 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.

(Dollars in Thousands)

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:

	June 30, 2013		June 30, 2012	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Investments in other funds	**$ 474,821**	**3.7**	$ 441,868	2.7
Corporate bonds	**728,766**	**6.5**	754,176	6.4
U.S. Treasury issues	**362,481**	**6.7**	309,610	6.7
U.S. Government Agency TBAs	**58,879**	**6.5**	–	–
Corporate asset-backed issues	**44,433**	**1.9**	38,005	8.0
Corporate CMO	**20,767**	**1.4**	21,589	4.8
U.S. Government Agency MBS	**342,200**	**2.3**	340,717	8.5
U.S. Government Agency discount notes	**4,718**	**0.4**	–	–
U.S. Government Agency CMO	**61,696**	**2.2**	32,536	3.4
Municipal bonds	**80,320**	**8.4**	93,246	13.1
Investments made with cash collateral for securities loaned	**13,882**	**–**	–	–
Short-term issues	**171,036**	**–**	184,079	–
Foreign government bond	**6,879**	**7.0**	6,293	7.5
Total assets	**$ 2,370,878**	**4.7**	$ 2,222,119	5.8

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, 2013 and 2012, the Total Return Fixed Income pool held $527,975 and $432,847, respectively, of these securities. This represents approximately 22% and 20%, respectively, of the value of the fixed income pools.

3. Deposit and Investment Risk Disclosures (continued)

BRIM's amount invested in the Total Return Fixed Income pool of $40,444 and $40,623 at June 30, 2013 and 2012, respectively, represents approximately 1.8% of total investments in this pool.

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 $6,879, 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 $153,875, or 32%, at June 30, 2013, and $183,355, or 31%, at June 30, 2012, 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, 2013 and 2012, 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:

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

	June 30, 2013				June 30, 2012			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds	A3	A	$ 270,356	20.8	A3	A	$ 271,566	22.7%
U.S. Treasury issues	Aaa	AA	282,660	21.7	Aaa	AA+	278,786	23.2
Corporate asset-backed issues	Aa3	AA	48,767	3.7	Aa2	AA+	30,397	2.5
Corporate CMO	A2	AA	134,887	10.4	A1	AA+	145,724	12.1
Foreign government bonds	Aa1	AA	12,467	1.0			–	–
U.S. Government Agency MBS	Aaa	AA	220,519	17.0	Aaa	AA+	173,034	14.4
U.S. Government Agency CMO	Aaa	AA	259,377	19.9	Aaa	AA+	268,484	22.3
U.S. Government Agency bonds	Aaa	AA	26,487	2.0	Aaa	AA+	16,801	1.4
Municipal bonds	Aa2	AA	7,311	.6	Aa3	AA-	4,781	0.4
Short-term issue	Aaa	AAA	10,892	.8	Aaa	AAA	11,728	1.0
Total rated investments			$ 1,273,723	97.9			$ 1,201,301	100.0%

Unrated securities include investments made with cash collateral for securities loaned valued at $26,850 or 2.1 percent of the fair value of the Pool's investments for 2013.

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, 2013 and 2012, 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, 2013 and 2012, 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.

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

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

	June 30, 2013		June 30, 2012	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Corporate bonds	**$ 270,356**	**5.7**	$ 271,566	5.7
U.S. Treasury issues	**282,660**	**6.5**	278,786	6.8
Corporate asset-backed issues	**48,767**	**1.4**	30,397	1.9
Corporate CMO	**134,887**	**2.2**	145,724	3.1
Foreign government bonds	**12,467**	**5.4**	–	–
U.S. Government Agency MBS	**220,519**	**4.6**	173,034	6.9
U.S. Government Agency bonds	**26,487**	**5.6**	16,801	5.0
U.S. Government Agency CMO	**259,377**	**3.7**	268,484	3.6
Municipal bonds	**7,311**	**14.3**	4,781	12.6
Investments made with cash collateral for securities loaned	**26,850**	**–**	–	–
Short-term issue	**10,892**	**–**	11,728	–
Total assets	**$ 1,300,573**	**4.6**	$ 1,201,301	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, 2013 and 2012, the Core Fixed Income pool held $663,550 and $617,639, respectively, of these securities. This represents approximately 51% and 51% of the value of the fixed income pools.

BRIM's amount invested in the Core Fixed Income pool of $21,674 and $21,966 at June 30, 2013 and 2012, respectively, represents approximately 1.7% and 1.8% 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, 2013, the funds were indirectly exposed to foreign currency risk. The dollar amount of the funds invested in foreign currencies was not disclosed by the WVIMB in its financial statement footnotes for this fund. At June 30, 2012, approximately $428,621 or 41% of the market value of the funds was held in foreign currencies. BRIM's amount invested in the Hedge Fund of $28,642 and $27,434 at June 30, 2013 and 2012, respectively, represents approximately 2.1% and 2.2%, respectively, 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, 2013				June 30, 2012			
Security Type	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
U.S. Treasury inflation protected securities	Aaa	AA+	$ 653,371	99.9%	Aaa	AA+	$ 738,767	99.9%
Short-term issue	Aaa	AAA	601	0.1	Aaa	AAA	406	0.1
Total rated investments			$ 653,972	100.0%			$ 739,173	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, 2013 and 2012, 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, 2013 and 2012, 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.

(Dollars in Thousands)

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:

	June 30, 2013		June 30, 2012	
Investment Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
U.S. Treasury inflation protected securities	**$ 653,371**	**7.8**	$ 738,767	8.1
Short-term issue	**601**	**0.0**	406	0.0
Total assets	**$ 653,972**	**7.8**	$ 739,173	8.1

BRIM's amount invested in the TIPS pool of $13,229 and $14,151 at June 30, 2013 and 2012, respectively, represents approximately 2.0% and 1.9%, respectively, 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

BRIM deposits 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, 2013				June 30, 2012			
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**	**AAA**	**$ 1,610**	**0.77**	–	–	$ –	– %
	Aaa	**AA+**	**–**	**–**	Aaa	AA+	651	0.32
	Aa1	**AA+**	**965**	**0.47**	Aa1	AA+	–	–
	Aa1	**AA**	**4,517**	**2.17**	Aa1	AA	1,524	0.76
	Aa1	**AA-**	**1,911**	**0.92**	Aa1	AA-	1,010	0.50
	Aa2	**AA**	**2,226**	**1.07**	Aa2	AA	–	–
	Aa2	**AA-**	**1,943**	**0.93**	Aa2	AA-	–	–
	Aa3	**AA-**	**967**	**0.47**	Aa3	AA-	–	–
			14,139	**6.80**			3,185	1.58
Collateralized mortgage obligations	**Aaa**	**–**	**4,199**	**2.02**	Aaa	–	–	–
			4,199	**2.02**			–	–
U.S. Treasury bonds and notes	**Aaa**	**AAA**	**157,591**	**75.77**	Aaa	AAA	151,297	75.08
U.S. Agency bonds	**Aaa**	**AA+**	**27,373**	**13.16**	Aaa	AA+	39,473	19.59
Agency-backed securities	**Aaa**	**AA+**	**4,157**	**2.00**	Aaa	AA+	3,653	1.81
Money market funds	**Aaa**	**AAA**	**514**	**0.25**	Aaa	AAA	3,897	1.94
Total rated investments			**$ 207,973**	**100.00%**			$ 201,505	100.00%

Concentration of Credit Risk

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

Custodial Credit Risk

At June 30, 2013 and 2012, advanced deposits include no securities that were subject to custodial credit risk.

(Dollars in Thousands)

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:

	June 30, 2013		June 30, 2012	
Investment Type	**Fair Value**	**WAM Years**	**Fair Value**	**WAM Years**
Corporate bonds and notes	**$ 14,139**	**4.1**	$ 3,185	1.9
U.S. Treasury bonds	**157,591**	**3.4**	151,297	4.1
U.S. agency bonds	**27,373**	**4.5**	39,473	1.8
Collateralized mortgage obligations	**4,199**	**8.0**	–	–
Agency-backed securities	**4,157**	**4.0**	3,653	3.0
Money market funds	**514**	**–**	3,897	1.0
Total rated investments	**$ 207,973**	**3.7**	$ 201,505	3.5

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:

	2013	**2012**
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 136,986**	$ 126,227
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**57,276**	57,864
Decrease in provision for insured events of prior years	**(3,259)**	(4,468)
Total incurred claims and claims adjustment expense	**54,017**	53,396
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**(10,870)**	(10,156)
Claims and claims adjustment expense attributable to insured events of prior years	**(36,565)**	(32,481)
Total payments	**(47,435)**	(42,637)
Total unpaid claims and claims adjustment expense liability at end of year	**$ 143,568**	$ 136,986

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2013 and 2012 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net position of approximately $12,683 and $12,052 for fiscal years 2013 and 2012, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

(Dollars in Thousands)

5. Employee Benefit Plans

Pension Benefits

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

Covered employees are required to contribute 4.5% of their salary to PERS. BRIM is required to contribute 14.5% of covered employees' salaries to PERS for 2013, 14.5% for 2012, and 12.5% for 2011. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. As noted below, BRIM contributed the proper, required amounts. BRIM and employee contributions for the three years ended June 30 are as follows:

	2013	**2012**	**2011**
BRIM contributions (14.5% – 2013, 14.5% – 2012, and 12.5% – 2011)	$ **132**	$ 145	$ 126
Employee contributions (4.5%)	**43**	45	46
Total contributions	$ **175**	$ 190	$ 172

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

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

5. Employee Benefit Plans (continued)

Other Postemployment Benefits

BRIM participates in a cost-sharing, multiemployer, defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPB) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia 25304 or by calling (888) 680-7342.

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce 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 2013 and 2012 was approximately $56 and $220, respectively, of which approximately $372 and $192 remained unpaid as of June 30, 2013 and 2012, respectively, and are recorded in accrued expenses and other liabilities in

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

the statements of net position. For fiscal years 2013 and 2012, BRIM's OPEB contribution was approximately $38 and $38, respectively, of the total required contribution of $56 and $220, respectively, for both years. The actual contribution represents 68% and 17% of the total required contribution for 2013 and 2012, 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 $145 and $140 for the years ended June 30, 2013 and 2012, respectively, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

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 $25,646 and $25,291 for the years ended June 30, 2013 and 2012, respectively.

BRIM is required by Senate Bill 1002 to remit amounts equal to the gross premium tax attributable to premiums collected by BRIM. These amounts are to be placed in a separate account known as "the Premium Tax Savings Fund" (the Fund) maintained by the State Treasurer. Amounts deposited by BRIM into the Fund approximated $1,781 and $2,034 for the years ended June 30, 2013 and 2012, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

(Dollars in Thousands)

8. Reinsurance ***(Amounts referenced in this note related to insurance coverages are actual dollars)***

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, 2013 or 2012.

9. Risk Management ***(Amounts referenced in this note related to insurance coverages are actual dollars)***

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(In Thousands)									
1) Premiums and investment revenues										
Earned	$ 110,279	$ 95,336	$ 89,690	$ 98,270	$ 83,499	$ 69,739	$ 83,088	$ 71,320	$ 64,361	**$ 54,969**
Ceded	3,801	3,911	4,145	6,151	6,394	5,944	6,257	6,075	5,386	**5,825**
Net earned	106,478	91,425	85,545	92,119	77,105	63,795	76,831	65,245	58,975	**49,144**
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	14,332	8,301	8,894	8,536	8,045	7,840	8,043	7,867	7,562	**7,240**
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	94,279	65,674	58,491	59,678	59,246	56,194	51,388	53,728	60,176	**57,276**
Ceded	597	5	172	3,597	2,000	300	–	–	2,312	–
Net incurred	93,682	65,669	58,319	56,081	57,246	55,894	51,388	53,728	57,864	**57,276**
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	13,799	9,134	10,097	12,416	8,352	9,753	9,965	10,757	10,156	**10,870**
One year later	55,414	16,901	17,547	16,942	18,097	19,069	17,009	18,034	20,830	
Two years later	61,987	25,283	23,291	24,345	26,240	25,457	25,606	26,398		
Three years later	72,727	33,505	31,901	30,733	33,488	32,126	32,612			
Four years later	78,617	37,904	37,202	35,469	38,077	36,501				
Five years later	81,861	42,490	39,306	37,636	39,518					
Six years later	83,488	45,173	40,739	40,076						
Seven years later	83,877	45,641	40,886							
Eight years later	84,189	45,883								
Nine years later	84,738									
5) Reestimated ceded claims and expenses	597	5	172	3,597	2,000	300	–	–	2,312	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	93,681	65,669	58,319	56,081	57,246	55,894	51,388	53,728	57,864	**57,276**
One year later	93,171	61,419	51,183	53,924	57,108	48,432	46,571	52,844	58,812	
Two years later	91,136	56,023	47,726	48,330	51,881	46,176	47,102	50,289		
Three years later	90,453	52,893	45,490	44,898	46,708	45,328	46,116			
Four years later	87,424	50,179	44,898	43,179	45,459	44,112				
Five years later	86,199	50,097	43,237	42,181	44,323					
Six years later	84,718	48,374	42,839	42,862						
Seven years later	83,815	47,843	43,061							
Eight years later	83,723	48,178								
Nine years later	83,505									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(10,176)	(17,491)	(15,258)	(13,219)	(12,923)	(11,782)	(5,272)	(3,439)	948	-

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									
	2013					2012				
	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	$ 129,072	$ 7,177	$ 737	$ –	$ 136,986	$ 122,499	$ 2,864	$ 864	$ –	$ 126,227
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	50,961	5,589	726	–	57,276	48,654	8,571	639	–	57,864
(Decrease) increase in provision for insured events of prior fiscal years	(3,929)	752	(91)	9	(3,259)	(123)	(4,193)	(159)	7	(4,468)
Total incurred claims and claims adjustment expense	47,032	6,341	635	9	54,017	48,531	4,378	480	7	53,396
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(8,789)	(1,939)	(142)	–	(10,870)	(7,854)	(2,117)	(185)	–	(10,156)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	(29,331)	(6,876)	(349)	(9)	(36,565)	(34,104)	2,053	(423)	(7)	(32,481)
Total claims and claims adjustment expense payments	(38,120)	(8,815)	(491)	(9)	(47,435)	(41,958)	(65)	(607)	(7)	(42,637)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	$ 137,984	$ 4,703	$ 881	$ –	$ 143,568	$ 129,072	$ 7,177	$ 737	$ –	$ 136,986

Other Financial Information

West Virginia Board of Risk and Insurance Management

Combining Statement of Net Position

June 30, 2013
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 12,282	$ –	$ –	$ 12,282
Advance deposits with carrier/trustee	201,613	–	–	201,613
Receivables, net	3,309	–	–	3,309
Prepaid insurance	7	–	–	7
Restricted cash and cash equivalents	–	2,019	5,422	7,441
Restricted receivables, net	–	692		692
Total current assets	217,211	2,711	5,422	225,344
Noncurrent assets:				
Investments	96,487	–	–	96,487
Restricted investments	–	43,388	–	43,388
Total assets	313,698	46,099	5,422	365,219
Liabilities				
Current liabilities:				
Estimated unpaid claims and claims adjustment expense	49,095	698	–	49,793
Unearned revenue	5,599	1,158	–	6,757
Agents commissions payable	861	–	–	861
Accrued expenses and other liabilities	588	15	–	603
Interprogram (receivables) payables	(15)	15	–	–
Total current liabilities	56,128	1,886	–	58,014
Noncurrent liabilities:				
Estimated claims and claims adjustment expense, noncurrent	93,515	260	–	93,775
Compensated absences	62	2	–	64
Total noncurrent liabilities	93,577	262	–	93,839
Total liabilities	149,705	2,148	–	151,853
Net position				
Restricted	–	43,950	5,422	49,372
Unrestricted	163,994	–	–	163,994
Net position	$ 163,994	$ 43,950	$ 5,422	$ 213,366

West Virginia Board of Risk and Insurance Management

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

Year Ended June 30, 2013
(In Thousands)

	Other Lines of Business	Mine Subsidence	House Bill 601 Medical Malpractice	Total
Operating revenues				
Premiums	$ 44,952	$ 2,142	$ 40	$ 47,134
Less excess coverage/reinsurance premiums	(5,825)	–	–	(5,825)
Total operating revenues	39,127	2,142	40	41,309
Operating expenses				
Claims and claims adjustment expense	53,373	636	9	54,018
General and administrative expense	3,175	98	2	3,275
Total operating expenses	56,548	734	11	57,293
Operating income (loss)	(17,421)	1,408	29	(15,984)
Nonoperating revenues				
Investment income	5,499	2,328	8	7,835
Net nonoperating revenues	5,499	2,328	8	7,835
Changes in net position	$(11,922)	$ 3,736	$ 37	$ (8,149)

West Virginia Board of Risk and Insurance Management

Deposits Disclosure

Form 7

Year Ended June 30, 2013
(In Thousands)

	Fair Value	
Cash with Treasurer	$ 1,678	(1)

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

Cash with Treasurer	$ 1,678	(2)
Cash equivalents with BTI	18,045	(2)
	$ 19,723	(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

Year Ended June 30, 2013
(In Thousands)

Investment Pool	Amount Unrestricted		Amount Restricted		Amount Reported		Fair Value
BTI and WVIMB Investment Pools:							
Cash liquidity	$ 11,206	(1)	$ 6,839	(1)	$ 18,045	(3)	$ 18,045
Short-term	96,487	(1)	43,388	(1)	139,875	(3)	139,875
Total investments	$ 107,693	(1)	$ 50,227	(1)	$ 157,920		$ 157,920

(1) Agrees to audited statement of net position as follows:				
Investments with BTI and WVIMB	$ 107,693		$ 50,227	
Less investments classified as cash equivalents	11,206		6,839	
Total investments	$ 96,487	(2)	$ 43,388	(2)

(2) Agrees to audited statement of net position.

(3) Agrees to Form 8-A.

West Virginia Board of Risk and Insurance Management

Deposits and Investments Disclosure

Form 8-A

Year Ended June 30, 2013
(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	$ 7,441	(1)
Unrestricted	12,282	(1)
Total cash and cash equivalents	19,723	
Less investments disclosed as cash equivalents	18,045	(2)(3)
Fair value of deposits as disclosed on Form 7	$ 1,678	(2)
Investments:		
Investments as reported:		
Noncurrent – restricted	$ 43,388	(1)
Noncurrent – unrestricted	96,487	(1)
Total investments	139,875	
Add investments disclosed as cash equivalents		
Fair value of investments as disclosed on Form 8	$ 139,875	(3)

(1) Agrees to audited statement of net position.

(2) Agrees to Form 7.

(3) Agrees to Form 8.

West Virginia Board of Risk and Insurance Management

Schedule of Receivables (Other Than State Agencies)

Form 9

Year Ended June 30, 2013
(In Thousands)

	Amount	
Accounts receivable (other than State agencies):		
Total accounts receivable as of June 30, 2013	$ 4,001	(1)
Less allowance for doubtful accounts	–	(2)
Net receivable	$ 4,001	

(1) Derived from the audited statement of net position as follows:		
Receivables:		
Premiums due from other entities	$ –	(2)
Other	3,309	(2)
Restricted receivables:		
Premiums due from other entities	692	(2)
	$ 4,001	

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

West Virginia Board of Risk and Insurance Management

Schedule of Accounts Receivable From Other State Agencies

Form 10

June 30, 2013
(In Thousands)

Receivable From	Amount
Total accounts receivable	$ – (1)

(1) Agrees to audited statement of net position.

West Virginia Board of Risk and Insurance Management

Schedule of Changes in Long-Term Obligations – Compensated Absences

Form 13

Year Ended June 30, 2013
(In Thousands)

Type of Debt	**Final Maturity Date**	**Balance as Reported June 30 2012**	**Payments**	**Other Changes**	**Balance June 30 2013**	
Compensated absences – annual leave	Varies	$ 67	$ –	$ (3)	$ 64	(1)

(1) Agrees to audited statement of net assets.

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Report of Independent Auditors 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 and Management
West Virginia Board of Risk and Insurance Management

We have audited, 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, the financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control over Financial Reporting

In planning and perform our audit of the financial statements, we considered BRIM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of BRIM's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

October 18, 2013

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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

December 3, 2013

John R. Lukens, Esquire
2 Bendcrest Place
Charleston, WV 25314

RE: Resolution by the Board of Directors of the West Virginia Board of Risk and Insurance Management (BRIM)

Dear Mr. Lukens:

On behalf of the BRIM Board of Directors, I am pleased to present the enclosed Resolution to you in recognition of the many years of outstanding service as the BRIM Board Chairman and as a faithful public servant.

The accomplishments set forth in the Resolution were made possible in great part because of your knowledge of the issues confronting BRIM and your unwavering leadership skills in working with the Board members.

The BRIM Board and staff send their best wishes in your future endeavors and look forward to hearing from you whenever possible.

Best regards,

C. E. Jones Jr.

Charles E. Jones, Jr.
Executive Director

CEJ:lld

c: Governor Earl Ray Tomblin
Ross Taylor, DOA Cabinet Secretary
BRIM Board

Enclosure

**A RESOLUTION BY THE BOARD OF DIRECTORS
OF THE WEST VIRGINIA BOARD OF RISK AND INSURANCE MANAGEMENT**

****

BE IT RESOLVED that we, the Members of the Board of Directors of the West Virginia Board of Risk and Insurance Management, wish to recognize the service of John R. Lukens, a distinguished lawyer and faithful public servant, as a Member and Chairman of the Board:

WHEREAS, John R. Lukens practiced law in Charleston, West Virginia for nearly forty years; and

WHEREAS, John R. Lukens was appointed to the Board of Directors for the West Virginia Board of Risk and Insurance Management (hereinafter BRIM) by Governor Bob Wise on December 20, 2001 and served faithfully until September 10, 2013; and

WHEREAS, John R. Lukens was elected by his fellow Board Members to serve as Chairman of the Board for his entire tenure on the Board; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board that implemented the Medical Malpractice insurance program for private physicians mandated by House Bill 601 that was passed during the sixth extraordinary session of the 2001 Legislature; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board that implemented the Patient Injury Compensation Fund mandated by the Legislature; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board that implemented a Financial Security Plan that ultimately resulted in the elimination of BRIM's unfunded liability situation; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board charged with oversight of the development of various loss prevention measures and the implementation of a credit and surcharge program resulting therefrom which has led to greater participation in BRIM's loss control efforts and ultimately better loss experience for various insured; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board that implemented a change from a modified paid loss retrospective rating program to a fully funded trust program for the BRIM Liability Program resulting in significant financial savings and stability for the Program; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board that implemented a policy to maintain the solvency of the BRIM Insurance Program through an ongoing analysis of the adequacy of BRIM's net assets; and

WHEREAS, John R. Lukens presided as Chairman of the BRIM Board with great tact, distinguishing intellect and good humor for almost twelve years;

THEREFORE, we hereby recognize and honor the service of John R. Lukens as a Member and Chairman of the West Virginia Board of Risk and Insurance Management. We direct that a copy of this RESOLUTION be provided to John R. Lukens.

DONE this 26th day of November, 2013, at South Charleston, West Virginia.

Bruce Martin, CIC, CRM
Vice Chairman

S. A. Cunningham
S. A. Cunningham, CPA
Board Member

Rob Anderson
Board Member

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

August 27, 2013

Vice Chairman Martin	Call to Order
Vice Chairman Martin	Approval of Board Minutes May 28, 2013

REPORTS

Charles E. Jones, Jr. Executive Director	Executive Director's Report
Scott Mountain Standish Mellon Asset Management	Account Update
Robert Bayston Standish Mellon Asset Management	Investment Update
Tom Sauvageot WV Investment Management Board	Investment Update
Stephen W. Schumacher, CPA Chief Financial Officer	Financial Report P-Card Report
Robert Fisher Deputy Director/Claim Manager	Loss Control Report

UNFINISHED BUSINESS

NEW BUSINESS

ADJOURNMENT

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
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 27, 2013

BOARD MEMBERS PRESENT:	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 Bob Berry, Underwriter John Fernatt, IT Manager Stephen M. Fowler, Esq., BRIM Counsel Jeremy Wolfe, Loss Control Manager Stephen Panaro, Controller Linda Dexter, Recording Secretary
BRIM PROGRAM REPRESENTATIVES:	Charles Waugh, AIG Claim Services Bob Ayers, Wells Fargo Insurance Services Brenda Samples, Wells Fargo Insurance Services
GUESTS:	Robert Bayston, Standish Mellon Asset Management Scott Mountain, Standish Mellon Asset Management Laura Zink, Standish Mellon Asset Management Mike Gansor, WVU Risk Management Sandy Price, WVU Health Sciences Center Brian Gallagher, Marshall University Tom Sauvageot, WV Investment Management Board

CALL TO ORDER

The meeting of the West Virginia Board of Risk and Insurance Management was called to order by Vice Chairman Martin at 1:06 p.m. on Tuesday, August 27, 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 May 28, 2013 Board Meeting. The motion was seconded by Mr. Anderson. There being no discussion, a vote was taken and the MOTION ADOPTED.

REPORTS

Executive Director's Report

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 stated that during the July Interims, there were several questions from members of the Joint Committee on Government and Finance regarding the condition of the Patient Injury Compensation Fund (PICF). As a follow-up to this meeting, he submitted a letter dated August 2, 2013 to the leadership of both houses outlining the status of the PICF. (The Board members were copied on the letter.) He explained that included in his letter was a summary of the history of the PICF. Unfortunately, the PICF is now out of money. Continuing, he stated that the PICF was created in 2004 as a vehicle to find compensation for uncollectible economic damages to those eligible claimants as a result of the statutorily cap on trauma care liability, which is $500,000, and the elimination of joint liability.

He noted that during fiscal years 2005, 2006, and 2007, the fund was supposed to receive $2.2 million each year, when in actuality, the fund received payments of $1,667,000 in 2005 and 2006; in 2007, only $1,580,412.01.

Mr. Jones further stated that no claims were received from 2004—for the first five or six years, so this money was invested, and BRIM increased the value of the fund to approximately $550,000.

With regard to claims at this time, the fund has had five claims in fiscal years 2013 and 2014. The projected payout on these five claims is $4,635,000, but as of June 30, 2013, the fund only had $3,494,000—a shortfall of $1,141,000.

Mr. Jones further explained that if there is no money in the fund, the claims are pro rated. BRIM will review the claims, adjust them, and indicate whether or not there will be an award; however, we will not be able to pay them until such time that some action is taken by the Legislature.

Changing topics, Mr. Jones then noted that it has been brought to his attention that the Auditor's Office is now questioning whether the Attorney General (AG) should be approving our incoming invoices/contracts for legal services. The AG's office advised the Auditor's Office that they did require approval of the AG. Mr. Jones stated that he made an inquiry with the AG's office on August 5th regarding what needed their approval, but we have not received a response to date.

Mr. Jones thereafter expressed the concerns of an insured at a recent Loss Control Meeting regarding FOIA protection of medmal risk management surveys. After consulting with BRIM's counsel, we learned that this information is privileged and not subject to the Freedom of Information Act.

At the May 28th Board Meeting, a draft Asset Management Policy was submitted to the Board for review. Vice Chairman Martin thereafter interjected that this issue will be addressed as Unfinished Business.

In closing, Mr. Jones made the following comments:

1. The Annual Report as of June 30, 2013 will be submitted to The Governor, legislative auditor and budget director by August 31, 2013;
2. An RFP is to be released around September 14th for the selection of a consultant to assist BRIM in finding Cyber Liability insurance;
3. On-Line Defensive Driver Training will begin January 1, 2014 for the SB 3 entities and BOEs. State agencies will participate in the summer of 2014;
4. The STRIMA Conference will be held in Nashville, Tennessee from September 15-19, 2013, and
5. The dynamics of the office is changing because people are retiring, thus necessitating the hiring of new permanent personnel, as well as a few temporary personnel to fill positions.

There being no questions for Mr. Jones, Vice Chairman Martin recognized Scott Mountain of Standish Mellon Asset Management, a wholly-owned subsidiary of the Bank of New York Mellon, for an update on our performance portfolio.

Standish Mellon Account/Investment Update

Before proceeding with his report, Mr. Mountain introduced Robert Bayston, Managing Director of Interest Rate Strategies, who would be presenting the investment report, and Laura Zink, who will also be a Relationship Manager for the BRIM account in West Virginia.

Referring to his report, “Presentation for: The State of West Virginia BRIM dated August 27, 2013,” copies of which had previously been distributed to the Board, Mr. Mountain summarized much of the material included. He explained the market trends and market yields over the last year, noting that Standish has continued to add macro analysts all over the world, which has significantly added to global growth. He explained that Mr. Bayston, who oversees the interest rate strategies, takes the information gathered from macro strategies and puts it in BRIM’s portfolio, which indicates how the markets are moving and affecting U.S. rates.

A copy of the report, “Presentation for: The State of West Virginia BRIM dated August 27, 2013,” is attached and filed as a part of the record.

At this point, Mr. Mountain called on Mr. Bayston, Managing Director of Interest Rate Strategies at Standish Mellon, to continue the presentation. The thrust of his presentation dealt with the market environment, a discussion of the economy, the employment situation, the central bank, how the economic policy affects interest rates, and the inflation outlook. He noted that for the most part, interest rates were generally “well behaved,” even though there was a gradual rise. However, the Fed reduced the amount of volatility in the market, and that reduces the associated risk premium. The Fed started the process of making asset purchases last fall, with a goal to continue to purchase until there was improvement in the labor market. However, Mr. Bayston continued, corporations were re-financing their debt; they increasingly became issuing more debt in order to buy back stock, and the asset prices being seen in the market were becoming elevated. The Fed looked at this as financial instability. From this point forward, there was a gradual rise in interest rates.

After further discussion of the interest rates and monetary policy, Mr. Bayston stated that the trend continues to be favorable and supportive of better economic times. He noted, however, when talking about the future, a couple of risks needs to be highlighted----the change in the leadership of the Fed, and the changes in the voting membership of the Fed.

Mr. Bayston thereafter briefly reviewed the performance and portfolio section of the report, noting that the result with higher interest rates was that performance over the course of the last year was not particularly great in terms of total returns—negative about 50 basis points for the trailing one-year period—lower than what we've been able to produce in the fixed-income market over the last three to five years.

A lengthy conversation ensued regarding the positioning of the portfolios, which are of very high quality, and how they were investing to ensure the highest yield possible.

Mr. Cunningham thereafter ascertained that each year's addition to the fund has been tracked annually for growth.

Mr. Bayston further explained that with regard to invoicing, AIG requests what is necessary to wire the money out of the trust into the escrow account. BRIM's input as far as investment strategy is very limited. The actual statements for each month spell out what is being paid, which in turn aids in benchmarking. In terms of investment performance and decision-making, we tend to evaluate ourselves on the gross numbers.

WVIMB Investment Update

After further discussion and there being no questions for Mr. Bayston or 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, a copy of which is attached and filed as a part of the record.

In discussing the performance, he noted that the Fed is artificially keeping down interest rates by their demand of buying the longer term government bonds. He further stated that the U.S. Equity, International Equity and Hedge Funds made significant contributions in adding to BRIM's portfolio return for the one- and three-year periods. Although the US TIPS are the most conservative asset in the portfolio, they have been the most negative in overall return.

Continuing, Mr. Sauvageot noted that BRIM's returns are substantially higher than the policy and strategic indices. Some of this is because of the strategic decisions made in house. The investment guidelines of the WVIMB are not the same as those which Standish uses, and this has allowed the IMB the opportunity to change a few things. The IMB has underweighted the traditional core sectors, which has allowed them to shorten up the maturities to make them less susceptible to interest rates, so the shorter the maturity, the less downside risk when interest rates go up. The IMB has replaced this to get higher yield by taking a little bit higher credit risk—very little in government bonds and more in corporates gives the portfolio a higher yield.

Mr. Sauvageot thereafter discussed BRIM's asset performance. Performance for the one- and three-year periods was very good but not so much for the five-year period. This is because the year 2008 was a tough year and the markets were very bad.

Mr. Cunningham asked if the IMB's target was something that BRIM could relate to—Barclays or whomever? Mr. Sauvageot explained that, with regard to the portfolio and not a particular asset, it is customized for BRIM. BRIM determines what the target is, and the IMB creates a portfolio which they feel will achieve that target. Factors influencing the target were how long the time horizon BRIM had, how much risk BRIM was willing to take, and the liquidity needs BRIM has on a regular basis. Using these variables, the IMB came up with what they thought was an appropriate asset allocation. Mr. Cunningham thereafter asked about the target figure, and Mr. Sauvageot responded that when the hedge fund was added, the target was about 5.7%. The IMB does their review about every three years, however, and the target has basically remained the same.

Vice Chairman Martin thereafter inquired if BRIM needed to revisit the allocation, to which Mr. Sauvageot advised only if liquidity needs change—if BRIM needs to get more money out of the investment.

Mr. Schumacher therafter stated that three years ago, the Cash component of 5% was added to the mix. The idea there was that BRIM knew they were going into a period of several years in the rating cycle where they were giving money back, so we knew on a cash flow basis we risked running a shortage. When Christy and Tom came in, we set up this arrangement so we could go in and make a withdraw at any point in time; then when we re-balance the portfolio, it's available again the following month.

<u>BRIM Financial Report</u>

There being no further discussion or questions for Mr. Sauvageot, Vice Chairman Martin asked Mr. Schumacher to give his Chief Financial Officer's Report. The unaudited balance sheet as of June 30, 2013 and the unaudited income statement for the twelve months ending June 30, 2013 were received and filed, copies of which are attached and made a part of the record.

A CD containing copies of the April, May, and June 2013 purchasing card invoices was distributed to each Board member. The Vice Chairman signed the acknowledgement form for the January, February, and March 2013 billings. The acknowledgement form is retained by the Finance Department.

Loss Control Report

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.

Mr. Fisher also announced that the two Loss Control Specialist positions had been filled, effective September 3, 2013.

There being no questions for Mr. Fisher, Vice Chairman Martin called on Mr. Cunningham to discuss unfinished business issues.

UNFINISHED BUSINESS

Mr. Cunningham requested that the topic of BRIM's net assets, which was tabled at the previous Board Meeting, be revisited, emphasizing the need to move expeditiously in finalizing a program to protect our reserves.

After a brief discussion, a **MOTION** was made by Mr. Cunningham that the Board approve BRIM management's recommended methodology for analyzing the agency's net assets, the Premium-to-Net Asset Reserve Ratio (NAR) as compared to other similar agencies. In addition, an annual review of BRIM's NAR level will be completed and approved by the BRIM Board of Directors, preferably after the external year-end audit has been completed. A 10% window will also be created, with an established ratio and "drop dead" point. Thereafter, the Board can be forced to take action at any time if the ratio goes above or below the drop dead point. Mr. Anderson seconded the motion. There being no discussion, a vote was taken and the **MOTION ADOPTED**.

Mr. Schumacher introduced Stephen Panaro, the new BRIM Controller, to the Board members.

NEW BUSINESS

Mr. Cunningham announced that John Lukens, the Board Chairman, is resigning and thereafter made a **MOTION** that the Board prepare a resolution acknowledging the many, many years of excellent service and leadership, and his particular inimitable style of presiding over the proceedings. Vice Chairman Martin noted that he was a very stabilizing force through the years, especially during the medmal crisis, and he will be greatly missed. Mr. Anderson seconded the motion. There being no further discussion, a vote was taken and the **MOTION ADOPTED**.

Vice Chairman Martin thereafter congratulated and commended WVU and their representatives, noting that they made national news recently on the restructuring of their workers' compensation program and saved a considerable amount of money.

ADJOURNMENT

There being nothing further, the meeting adjourned at 2:36 p.m.

______________________________ 11/26/13

Board Vice Chairman Date

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

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Executive Director's Report

August 27, 2013

A. Marshall University and West Virginia University Medical Malpractice Program

- As of July 31, 2013, Marshall has deposited $1,760,132.45 into the escrow account. The cumulative interest totals $124,882.72. There have been no disbursements during fiscal year 2014 thus far.

- As of July 31, 2013, a total of $5,579,087.45 has been transferred or deposited into WVU's escrow account. The cumulative interest totals $130,484.46. There have been no disbursements during fiscal year 2014 thus far.

B. State Agency/Senate Bill #3 Litigation

Litigation results: So far in 2013, we have tried five cases to a verdict, with three defense verdicts, and two plaintiff verdicts. The latest case tried was a defense verdict in June 2013.

C. Joint Committee on Government and Finance (JCGF) Report on the Patient Injury Compensation Fund (PICF)

During the legislative interims on July 24, 2013, I spoke to the JCGF regarding the status of the PICF. In response to some questions from the legislature, I submitted the attached letter dated August 2, 2013 to Speaker Miley and President Kessler with copies to the BRIM Board.

The letter provides a history of the PICF including deposits and disbursements and is summarized as follows:

- PICF was created in 2004 to provide compensation for uncollectible economic damages (damages that can be calculated from documents or records and usually involve medical bills and expenses (past and future), loss of wages and earnings (past and future), and future lost earning capacity and profits) due to:
  - Statutory limitation on "trauma care liability" at $500,000.
  - Elimination of joint liability, but several liability is maintained.
- Exhausted all reasonable means to recover applicable insurance proceeds.
- BRIM can consider settlements as opposed to only jury awards.
- PICF is operated as a fund of last resort.
- PICF initial funding supposed to have been (from the tobacco account):
  - FY 2005 $2,200,000
  - FY 2006 $2,200,000
  - FY 2007 $2,200,000
- PICF actual funding:
  - FY 2005 $1,667,000
  - FY 2006 $1,667,000
  - FY 2007 $1,580,000
- Five outstanding claims
  - Four for FY 2013; projected payout: $3,651,159.10
  - One for FY 2014; projected payout: $ 943,912.85
  - Additional expenses for FY 2013: $ 40,000.00 Estimated
  - Total projected payout: $4,635,071.95
- Balance in PICF as of June 30, 2013: $3,494,611.06
- Estimated shortfall: ($1,140,460.89)
- At the end of any fiscal year in which there is a shortfall, WC CSR §§ 115-7-6.4 and 6.5 address what is to be done procedurally.
  - 6.4 instructs that the amount paid to each claimant shall be prorated.
  - 6.5 instructs that unpaid proration be carried over to the next fiscal year; however, unpaid claims are not a debt of the state and are dependent upon funding.

At the present time, there are five outstanding claims being addressed by BRIM--four for FY 2013 and one for FY 2014. Attached to the letter is a reconciliation of the deposits and actual disbursements and projected disbursements. From the reconciliation, it is apparent that there are insufficient funds to fully pay the projected amounts for the five claims presented. The reconciliation projects payments for the four FY 2013 claims totaling $3,651,159.10. The one FY 2014 claim is projected to cost $943,912.85. The fund balance as of June 30, 2013 is $3,494,611.06, which leaves a shortfall of $1,140,460.89.

In the event there are insufficient funds remaining in the PICF, WV CSR§§ 115-7-6.4 and 6.5 address what is done in such circumstances.

D. Invoice for Legal Services

We received invoices for legal services from the following two firms: Pullin, Fowler, Flanagan, Brown and Poe, and Bailey and Wyant. The legal services invoices were the final invoices attributed to the PICF for FY 2013. Processing the final legal services invoices allows us to reconcile all payments for the PICF and accurately determine the amount available in the PICF to pay claims that were received in FY 2013.

Over the last four fiscal years, we have paid 22 separate invoices for legal services from the PICF without a problem. The last invoice submitted, which amounted to only $1,055.30, was submitted to the Auditor's Office for payment. A representative from the Auditor's Office contacted the Attorney General to inquire if they (the Attorney General) needed to approve the invoice/ contract for legal services. The Office of the Attorney General advised the Auditor's Office that it did require approval of the Attorney General. I questioned the Office of the Attorney General what needed approval but have not received a response at this time.

E. Legal Opinion of FOIA on Surveys/Recommendation from WV Mutual on Medical Malpractice

During a recent Loss Control meeting, an insurer expressed some very legitimate concerns regarding FOIA protection/discoverability of the results of the comprehensive medical malpractice risk management program surveys. We did seek the advice of counsel on this issue. It is the opinion of counsel that the reports developed as a result of the survey team meeting and the review organization criteria set by the WV Code § 30-3C-1 are privileged information and, thus, not subject to the Freedom of Information Act.

F. Asset Management Policy

At the previous BRIM Board Meeting on May 28, 2013, the three potential processes for analyzing BRIM's net assets were discussed at length, with no decision being reached to date. This matter is still open for comment.

G. Annual Report to the Governor on Board Activities

In accordance with the provisions of §29-12-4 of the West Virginia Code, the Annual Report of the West Virginia Board of Risk and Insurance Management as of June 30, 2013 will be submitted to the Governor, legislative auditor and budget director by no later than August 31, 2013.

H. Requests for Proposals

1. Consultant for Cyber Liability

2. On-line Defensive Driving

   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.

I. STRIMA

Robert Fisher, Steve Schumacher, Chuck Mozingo, John Fernatt and I will be attending the annual STRIMA Conference next month from September 15-19, 2013 in Nashville, Tennessee.

J. Personnel Issues

Retirees –	June Butterfield	- effective June 1, 2013
	Linda Dexter	- effective August 31, 2013
	John Lukens	- effective September 1, 2013
	Jerry Gladwell	- effective October 1, 2013
New Hires –	Stephen Panaro	- Controller effective August 6, 2013
	Ashlyn Harlan	- Safety/Loss Control Specialist 1 effective September 3, 2013
	Shawn Hall	- Safety/Loss Control Specialist 1 effective September 3, 2013
Temporaries –	June Butterfield	- Office Manager
	Ryne Eich	- Claims - Office Assistant 1
	Niki Miller-Casdorph	- Finance - Office Assistant 2
	Kati Heindl	- IT - Office Assistant 1

Respectfully submitted,

C. E. Jones Jr.

Charles E. Jones, Jr.
Executive Director

CEJ:lld

Attachment

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

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

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

Earl Ray Tomblin
Governor

Ross Taylor
Cabinet Secretary

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

August 2, 2013

The Honorable Tim Miley
Speaker of the House of Delegates
State of West Virginia
Room 228M, Building 1
State Capitol Complex
Charleston, West Virginia 25305

The Honorable Jeffrey V. Kessler
President of the Senate
State of West Virginia
Room 227M, Building 1
State Capitol Complex
Charleston, West Virginia 25305

Reference: Patient Injury Compensation Fund

Gentlemen:

In accordance with a request for additional information on the Patient Injury Compensation Fund (PICF) during the July 24, 2013 Joint Committee on Government and Finance interim meeting, I submit the following for your review.

The West Virginia Legislature created the West Virginia PICF in 2004 for the purpose of providing fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of limitations on economic damage awards for trauma care, or as a result of the operation of the joint and several liability principles and standards, set forth in article seven-b [*§§ 55-7B-1]*, chapter fifty-five of [the West Virginia] code. W.Va. Code §29-12D-1(a) The PICF shall be administered by the Board of Risk and Insurance Management (BRIM). W.Va. Code §29-12D-2

Any qualified claimant seeking payment from the fund must establish to the satisfaction of the board [BRIM] that he or she has exhausted all reasonable means to recover from all applicable liability insurance an award of economic damages, following procedures prescribed by the board by legislative rule. W.Va. Code §29-12D-3(c) The economic damages must have been awarded but be uncollectible after the exhaustion of all reasonable means of recovery of applicable insurance proceeds. W.Va. Code §29-12D-3(d)

In its discretion, the board may make a payment or payments out of the fund to a qualified claimant in connection with the settlement of claims arising under article seven-b [*§§ 55-7B-1* et seq.] chapter fifty-five of [the West Virginia] code, all according to rules promulgated by the board. W.Va. Code §29-12D-3(f) The agency [BRIM] may, but is not required to, consider, approve or disapprove any settlement petition. W.Va. Code of State Rules (CSR) §115-7-8.2

The fund shall be operated as a fund of last resort. Payment by the fund to a qualified claimant for uncollectible economic damages may be made only when all insurance coverages have been exhausted. W. Va. CSR §115-7-4 Funding for the PICF was provided for through W.Va. Code §29-12D-1(b).

> Initial funding for the fund shall be provided as follows: During fiscal year two thousand five, two million two hundred thousand dollars of the revenues that would otherwise be transferred to the tobacco account established in subsection (b), section two, article eleven-a, chapter four of this code pursuant to the provisions of section fourteen, article three, chapter thirty-three of this code shall be transferred to the fund; during fiscal year two thousand six, two million two hundred thousand dollars of the revenues that would otherwise be transferred to the tobacco account established in subsection (b), section two, article eleven-a, chapter four of this code pursuant to the provisions of section fourteen, article three, chapter thirty-three of this code, shall be transferred to the fund; and during fiscal year two thousand seven, two million two hundred thousand dollars of the revenues that would otherwise be transferred to the tobacco account established in subsection (b), section two, article eleven-a, chapter four of this code pursuant to the provisions of section fourteen, article three, chapter thirty-three of this code shall be transferred to the fund. Beginning fiscal year two thousand eight, if and to the extent additional funding for the fund is required from time to time to maintain the actuarial soundness of the fund, the additional funding may be provided by further act of the Legislature, either from the revenue stream identified in this subsection or otherwise. Payments to the tobacco fund shall be extended until the tobacco fund is repaid in full.

In actuality, funding for the PICF amounted to a total of $4,914,412.01 which consisted of payments of $1,667,000, $1,667,000, and $1,580,412.01 in fiscal years 2005, 2006, and 2007, respectively.

At the present time, there are five outstanding claims being addressed by BRIM; four for the fiscal year running from July 1, 2012 to June 30, 2013, and one for the fiscal year running from July 1, 2013 to June 30, 2014. It is clear that the balance remaining in the Patient Injury Compensation Fund is insufficient to fully satisfy the awards which are and will be made with regard to the five aforementioned claims. W.V. CSR §§ 115-7-6.4 and 6.5 address what is to be done in such circumstances:

> 6.4 If, after the payment of all expenses incurred for the administration of the fund during the fiscal year, the available cash and invested assets remaining in the fund are insufficient to pay in full all claims for uncollectible economic damages that have become final during the fiscal year, the amount paid to each qualified claimant shall be prorated in a manner so that each qualified claimant with a final claim receives the same percentage of compensation as his or her amount of approved and outstanding compensation at the end of the fiscal year relates to the total amount of all approved and outstanding compensation at the end of the fiscal year.
>
> 6.5 Any uncollectible economic damages unpaid to qualified claimants after the proration, shall be carried forward to the next fiscal year as a final claim. Unpaid claims are not a debt of the state of West Virginia or a charge against the general revenue fund, and payments in future years shall be entirely dependent on the contributions, revenues or moneys paid into the fund by the state or from any other source.

BRIM is in the process of reconciling final expenses for FY 2013. Upon reconciliation of those final expenses which are anticipated to approximate $40,000, the PICF as of June 30, 2013 will have a balance of approximately $3,454,611.06.

Attached is a summary of all PICF deposits and disbursements as of June 30, 2013. Included in the summary are the projected disbursements (claim payments) for the five pending claims. As is illustrated in the PICF summary, for the four FY 2013 claims, the projected payment is $3,651,159.10 which exceeds the June 30, 2013 PICF fund balance. Additionally, the FY 2014 claim has a projected potential payment of $943,912.85 which further adds to the deficiency. In conclusion, the PICF does not have enough funds to fully pay the FY 2013 claims, or any funds to pay any part of the FY 2014 claim. The estimated shortfall is $1,140,460.89.

I sincerely hope this communication is responsive to the inquiries of the Committee. Should there be any questions, I am available to provide additional information.

Respectfully submitted,

C. E. Jones, Jr.

Charles E. Jones, Jr.
Executive Director

CEJ:lld

c: Ross Taylor, Cabinet Secretary,
Department of Administration
Robert Fisher, BRIM Deputy Director/Claim Manager
Steve Schumacher, CPA, BRIM CFO
BRIM Board

Attachment

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Chief Financial Officer's Report
August 27, 2013

A. P Card Report

CD copies contain the supporting detail for P card purchases for the months of April, May and June, 2013. These totals are:

April	$49,213.73
May	$53,061.23
June	$43,156.73

B. Financial Results

- The financial results provided for the fiscal year ended June 30, 2013 are preliminary and subject to year-end audit results. Reserves are adjusted for the draft estimates of AON's risk funding study as of June 30, 2013. AON's final report will be issued in early September. The completed risk funding study will be reviewed by Ernst & Young as part of their normal year-end audit work. Their audit will be completed by mid-October when BRIM's final audited financial statements for FY'13 will be issued.
- Net premium revenue for FY'13 is $4.2 million lower than FY'12. BRIM provided additional reductions in premiums to insured entities in FY'13 while incurring higher excess insurance costs.
- Claims and claims-related payments for FY'13 were approximately $3.9 million higher than in FY'12. Claims liabilities increased both years - $6.6 million for FY'13 and $10.8 million for FY'12.
- The overall return on funds invested was 2.1% for FY'13 vs. 3.8% for FY'12. The lower interest rate environment reduced year-over-year investment earnings by $5.6 million for FY'13.
- BRIM's net loss of $7.2 million for FY'13 versus a net income of $1.7 million for FY'12 is the combined result of lower net premiums and poorer investment results that were offset by a slight reduction in operating expenses of $0.6 million for the current year.

C. Government Finance Officers Association (GFOA) Recognition

- GFOA recently notified BRIM that it 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, 2012. This is GFOA's highest form of recognition in governmental accounting and financial reporting and it represents the 18th consecutive year that BRIM has been acknowledged for this achievement.

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

		June 30		
		2013		2012
		(in thousands)		
ASSETS				
Short Term Assets				
Cash and Equivalents	$	19,723	$	25,568
Advance Deposit with Carrier/Trustee		201,538		200,949
Receivables - Net		4,560		1,200
Prepaid Insurance		7		22
Total Short Term Assets		225,828		227,739
Long Term Assets				
Investments		139,875		138,164
Total Long Term Assets		139,875		138,164
TOTAL ASSETS		365,703		365,903
LIABILITIES				
Short Term Liabilities				
Accounts payable		230		433
Claims Payable		-		8
OPEB Liability		374		374
Agents Commissions Payable		860		1,026
Unearned Revenue		6,307		5,494
Current Estimated Claim Reserve		51,359		47,719
Total Short Term Liabilities		59,130		55,054
Long Term Liabilities				
Compensated Absences		67		67
Estimated Noncurrent Claim Reserve		92,210		89,267
Total Long Term Liabilities		92,277		89,334
TOTAL LIABILITIES		151,407		144,388
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		11,274		2,538
Unrestricted		(18,493)		(851)
Total Current Year Earnings (Deficiency)		(7,219)		1,687
Total Net Assets				
Restricted - HB601 and Mine Subsidence		56,873		45,599
Unrestricted		157,423		175,916
TOTAL NET ASSETS		214,296		221,515
TOTAL LIABILITIES AND RETAINED EARNINGS	$	365,703	$	365,903

DRAFT - Unaudited - Management Purposes Only

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

	June 30 2013	June 30 2012
	(in thousands)	
Operating Revenues		
Premium Revenues	$ 47,266	$ 51,046
Less - Excess Insurance	(5,825)	(5,386)
Total Operating Revenues	41,441	45,660
Operating Expenses		
Claims Expense	46,285	48,404
Property & MS Claims Expense	6,841	4,992
Personal Services	1,306	1,572
General & Administrative Expense	1,977	2,320
Total Operating Expenses	56,409	57,288
Operating Income (Loss)	(14,968)	(11,628)
Nonoperating Revenues		
Investment Income	7,749	13,315
Total Nonoperating Revenues	7,749	13,315
Net Income (Loss)	$ (7,219)	$ 1,687

STATE OF WEST VIRGINIA
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Loss Control Report to the Board
August 2013

We are pleased to report that we have been able to fill the two vacant loss control specialist positions. Our new folks will begin work on September 3, 2013 and we will introduce them to you at a later meeting. With these additions the department will be back at full strength for the first time in a long time.

West Virginia State University sought our help due to their recent acquisition of the old West Virginia Rehabilitation Center property. We provided guidance with regard to occupancy and use of buildings that are to be utilized; and guidance on how to properly secure and protect those that will not be utilized at this time.

Our partner, the West Virginia Mutual Insurance Company, has recently completed medical malpractice risk management program surveys at Marshall University and the West Virginia School of Osteopathic Medicine. With information gathered from these surveys, we will jointly tailor medical malpractice loss control efforts for them as well as the other three entities that will receive these services.

BRIM and Hartford Steam Boiler will sponsor two boiler safety and operational seminars this fall. We are hopeful that these seminars will continue to attract large crowds and that what is learned at the seminars will help keep boiler losses minor and to a minimum as they have been for many years.

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

We have successfully renewed our risk management service vendor contracts for the 2014 fiscal year with Aon and Hartford Steam Boiler.

During the months of May, June, July, and August Aon conducted 196 inspections and Hartford conducted 821. The reports are being processed according to established procedures.

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

10 Loss Control Visits

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

15 Standards of Participation Visits

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

4 Presentation Visits

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

2 Continuing Education Visit

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

Dated: 8/26/2013

Respectfully submitted,

Robert A Fisher

Robert A. Fisher
Deputy Director *and* Claim Manager

Presentation for:

The State of West Virginia BRIM

August 27, 2013

Biographies

Robert Bayston, CFA

Robert is the Managing Director and Senior Portfolio Manager of US Interest Rate Strategies. He is responsible for the portfolio management of all US Treasury/government and agency mortgage backed strategies. Robert also manages all inflation linked portfolios including US and global mandates. In addition to his portfolio management responsibilities, Robert oversees the research and strategy efforts in US interest rate products including the use of derivative strategies for risk management and liability hedging. Robert joined the firm in 1991 and has held several positions in fixed income research and trading before assuming his current responsibilities in 2005. He has an M.S. in Finance from Boston College and a B.S. from the University of Virginia's McIntire School of Commerce. Robert is a member of the Boston Security Analysts Society and holds the CFA® designation. He has over 21 years of investment experience and has spent his entire career with Standish.

Scott Mountain, CFA

Scott is a Senior Relationship Manager in our Boston office responsible for client relationships for our institutional fixed income portfolios. He joined the company in 2006 from Lehman Brothers where he was responsible for client service, trading, and middle market equity sales. Scott has an M.S. in Investment Management from Boston University, and a B.A. from the University of Massachusetts at Amherst. Scott holds the CFA® designation and has 15 years of industry experience.

Laura Zink

Laura is a Relationship Manager in our Boston office responsible for client relationships for our institutional fixed income portfolios. She joined the company in 2012 from BMO Global Asset Management where she was a Relationship Manager for institutional clients. Previously Laura worked as an Investment Analyst at Northern Trust; prior to that she was a Performance Analyst at Mercer Investment Consulting. Laura received both her M.B.A. and B.S. from DePaul University. Laura has 11 years of industry experience.

Agenda

I. Corporate Overview

II. Market Environment

III. Performance & Portfolio Review

IV. Client Service Update

V. Appendix

Section I.

Standish By The Numbers

1933
Year Standish is founded

163 billion
USD in assets under management[1]

185 employees[2]

130 Investment professionals
located in U.S., U.K., & Singapore[2]

U.S., regional and global mandates
With clients in **35** countries

Dedicated exclusively to fixed income and credit solutions

Source: Standish as of June 30, 2013.

[1] Assets under management (AUM) as of June 30, 2013. Standish had reported total AUM of $104 billion as of December 31, 2012. The difference is the result of a planned corporate restructuring, effective January 1, 2013, that saw the transfer to Standish of cash and stable value assets previously managed by BNY Mellon Cash Investment Strategies, a division of The Dreyfus Corporation. This figure includes assets managed by Standish personnel acting as dual officers of The Dreyfus Corporation or The Bank of New York Mellon, and high yield assets managed by personnel of Alcentra NY, LLC acting as dual officers of Standish. Standish, Dreyfus, and Alcentra are registered investment advisers; they and The Bank of New York Mellon are wholly-owned subsidiaries of The Bank of New York Mellon Corporation.

[2] Includes shared employees of BNY Mellon Asset Management (UK) Limited and MBSC Securities Corporation, both affiliates of Standish Mellon Asset Management Company LLC ("Standish"), contracted employees from the Singapore Branch of The Bank of New York Mellon, and employees of Alcentra NY, LLC acting as dual officers of Standish. 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.

Standish Mellon Asset Management Company LLC[1]

Desmond Mac Intyre
Chairman & Chief Executive Officer, Standish

Active Fixed Income Division	Tax Sensitive Division	Cash Division	Stable Value Division
$77.2 Billion AUM	$29.6 Billion AUM	$36.3 Billion AUM	$19.9 Billion AUM
Desmond Mac Intyre *Chairman & CEO, Standish* *Head of Active Fixed Income Division*	**Christine Todd, CFA** *President of Standish* *Head of Tax Sensitive Division*	**James Kohley, CFA[2]** *Executive Vice President* *Head of Cash Division*	**Eric Baumhoff, CFA** *CIO, Stable Value* *Head of Stable Value Division*
Patrick Lyn, CFA *Managing Director of Client Service* *Active Fixed Income Division*	**Steven Harvey** *Director of Relationship Management* *Tax Sensitive Division*	**James Kohley, CFA[2]** *Director of Client Service* *Cash Division*	**Douglas Barry, CFA** *Senior Relationship Manager* *Stable Value Division*

Michael Faloon, CFA, FRM
Chief Operating Officer

Julia Braithwaite
Chief Compliance Officer

Christopher Austin, CFA
Managing Director of U.S. Sales & Global Consultant Relations

Alex Over
Managing Director of Global Sales & Product Strategy

[1] As of June 30, 2013. Assets under management (AUM) includes assets managed by Standish personnel acting as dual officers of The Dreyfus Corporation or The Bank of New York Mellon, and high yield assets managed by personnel of Alcentra NY, LLC acting as dual officers of Standish. Standish, Dreyfus, and Alcentra are registered investment advisers; they and The Bank of New York Mellon are wholly-owned subsidiaries of The Bank of New York Mellon Corporation.
[2] MBSC Securities employee who is a dual officer of Standish.

STANDISH
➤ A BNY MELLON COMPANY℠

Investment Strategies & Solutions

Single Sector Relative Return

- **Emerging Markets**
  Local Currency, US$, Corporates, Opportunistic
- **Global Corporate Credit**
  U.S., Euro & Global
- **Securitized Strategies**
  ABS & CMBS
- **Mortgages**
- **Tax-Sensitive**
  Short, Intermediate, Long
- **TIPS**
  U.S. & Global
- **Government**
  U.S. & Global

Multi-Sector Relative Return

- **Total Emerging Markets**
- **Global Core Plus**
- **Global Core/Non-US Core**
- **Long Duration**
- **U.S. Core Plus**
- **U.S. Core**
- **Short/Intermediate Duration**
- **Cash**
- **Stable Value**

Absolute Return

- **Opportunistic Fixed Income**
- **Tax Sensitive Absolute Return**
- **Absolute FX**

Solutions: Liability Driven Investing • Insurance Client Strategies • Liquidity Strategies • ESG/SRI

Standish Active Fixed Income Division

Desmond Mac Intyre
Chairman & CEO of Standish, Division Head

David Leduc, CFA
Chief Investment Officer

David Horsfall, CFA
Co-Deputy Chief Investment Officer

Raman Srivastava, CFA
Co-Deputy Chief Investment Officer

Thomas Higgins, PhD
Chief Economist & Global Macro Strategist

MULTI-SECTOR PORTFOLIO MANAGEMENT

OPPORTUNISTIC
David Horsfall, CFA
David Leduc, CFA
Raman Srivastava, CFA

GLOBAL FIXED INCOME[1]
Raman Srivastava, CFA
Brendan Murphy, CFA

U.S. CORE / CORE PLUS
David Bowser, CFA
David Horsfall, CFA

INSURANCE CLIENT STRATEGIES[4]
Anthony Criscuolo, CFA
James Kaniclides, CFA

LIABILITY DRIVEN INVESTING[4]
Andrew Catalan, CFA
Matthew Fontaine, CFA

SINGLE-SECTOR PORTFOLIO MANAGEMENT & RESEARCH

GLOBAL SOVEREIGN / REGIONAL[1]
Raman Srivastava, CFA
Brendan Murphy, CFA

EMERGING MARKETS DEBT[1,3]
Alexander Kozhemiakin, PhD, CFA

GLOBAL CORPORATE CREDIT[2]
Jake Gaul, CFA
Chris Barris[2]

CURRENCY
Federico Garcia Zamora

INTEREST RATE STRATEGIES
Robert Bayston, CFA

SECURITIZED STRATEGIES
Thomas Graf, CPA

TRADING • RISK MANAGEMENT • COMPLIANCE • ACTUARIAL SERVICES[§]

[1] London – Includes employees from Standish Division of BNY Mellon Asset Management (UK) Limited
[2] Includes employees of Alcentra NY, LLC acting as dual officer of Standish
[3] Singapore – Includes contracted research analysts from the Singapore Branch of The Bank of New York Mellon ;
[4] Includes contracted research capabilities.
Note: Some investment professionals perform the same role on more than one product team. CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Interest Rate Strategies Team

Robert Bayston, CFA
Managing Director

Investment Team Resources

Portfolio Management	Strategy Research	Trading	Portfolio Analytics	Quantitative Research
Robert Bayston, CFA	Nate Pearson, CFA Karen Gemmett, CFA	Jeff Nutt, CFA Gregory Neville	Patrick Gillis	Product Support

MACROECONOMIC RESEARCH COMMITTEE

Thomas Higgins, PhD
Chief Economist & Global Macro Strategist

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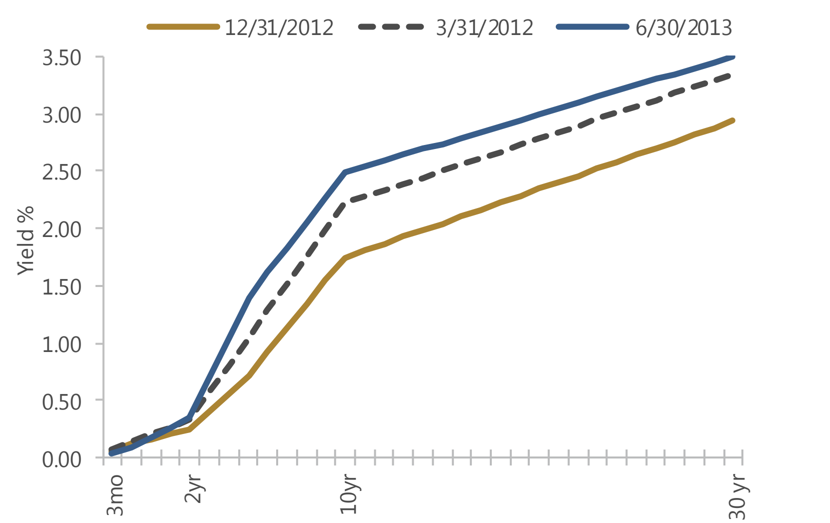
Section II.

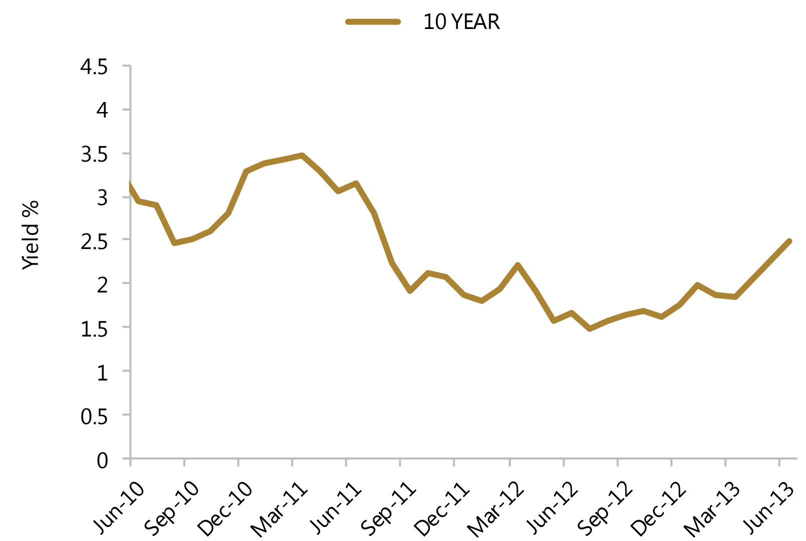
U.S. Treasury Yields

U.S. Treasury Yields



Source: Bloomberg as of June 30, 2013

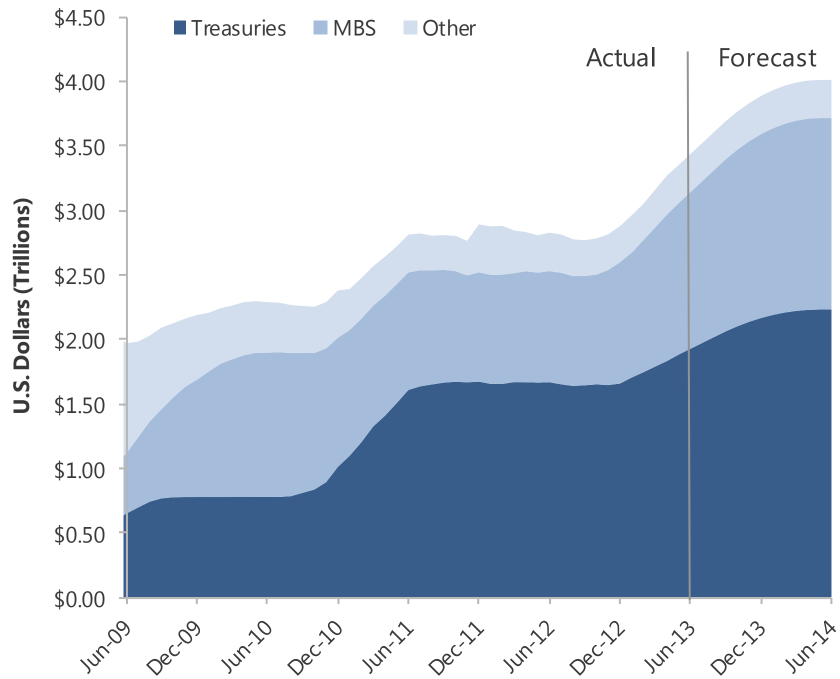
U.S. 10 Year Treasury Yields



Source: Bloomberg as of June 30, 2013

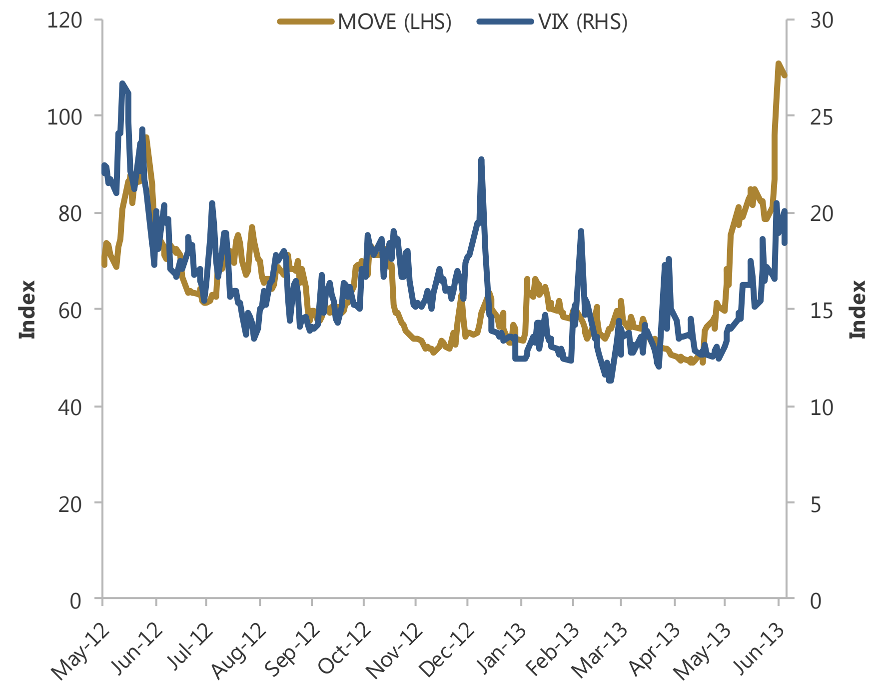
Fed Tapering Talk Caught the Market by Surprise

Fed Balance Sheet



Source: Federal Reserve as of June 2013

Stock & Bond Market Volatility



Source: Bloomberg June 2013

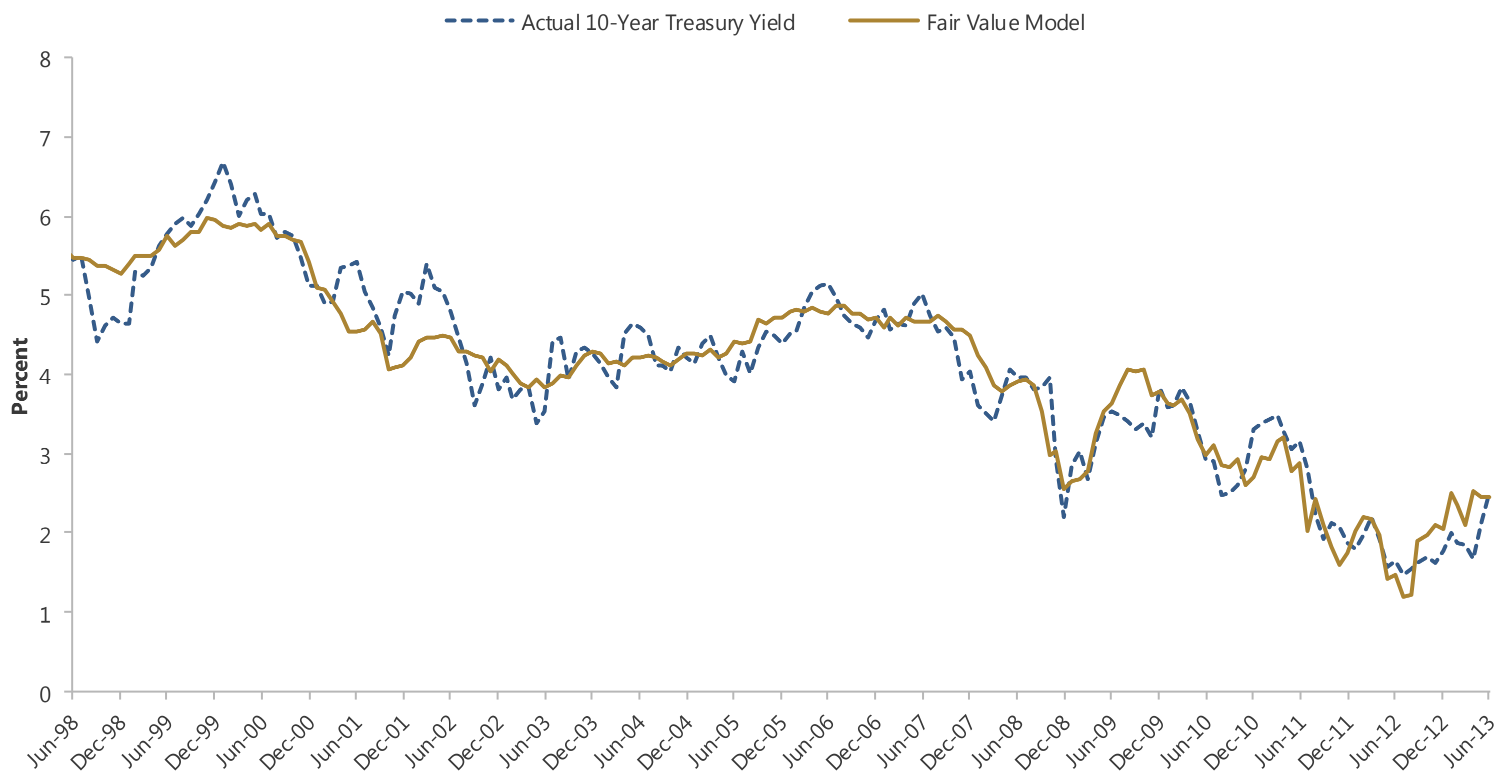
Please see important disclosures at the end of this presentation.

STANDISH
A BNY MELLON COMPANY℠

EOOAFICJULY2013070313JS

U.S. Treasury Yields Have Moved Toward Fair Value

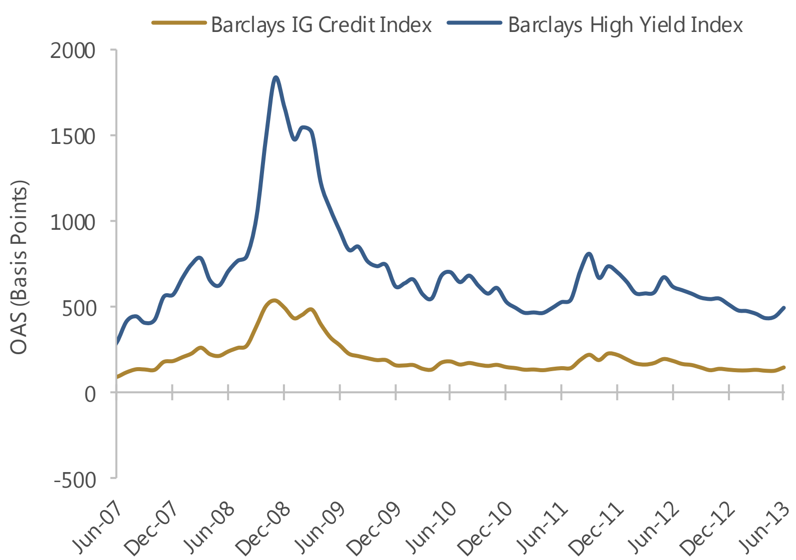
10-Year US Treasury Yield



Source: Federal Reserve and Standish as of June 2013

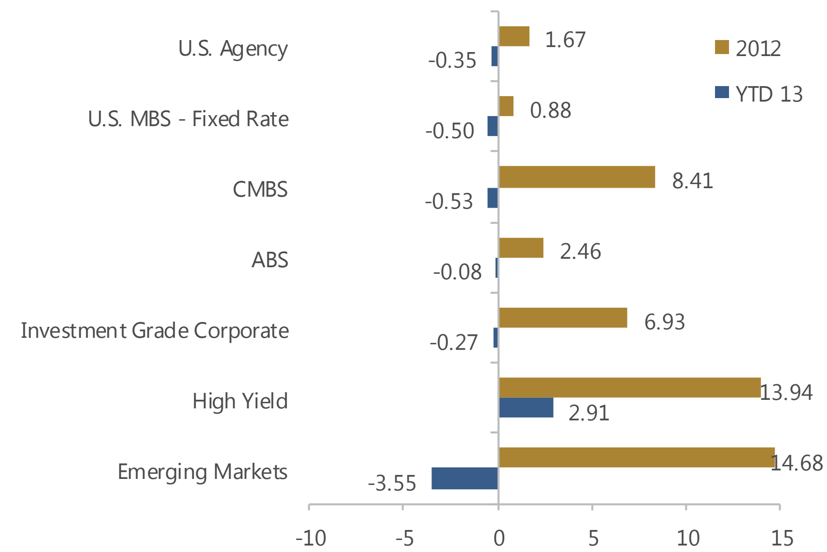
Sector Returns & Corporate Bonds Spreads

Corporate Bond Spreads



Source: Barclays as of June 30, 2013

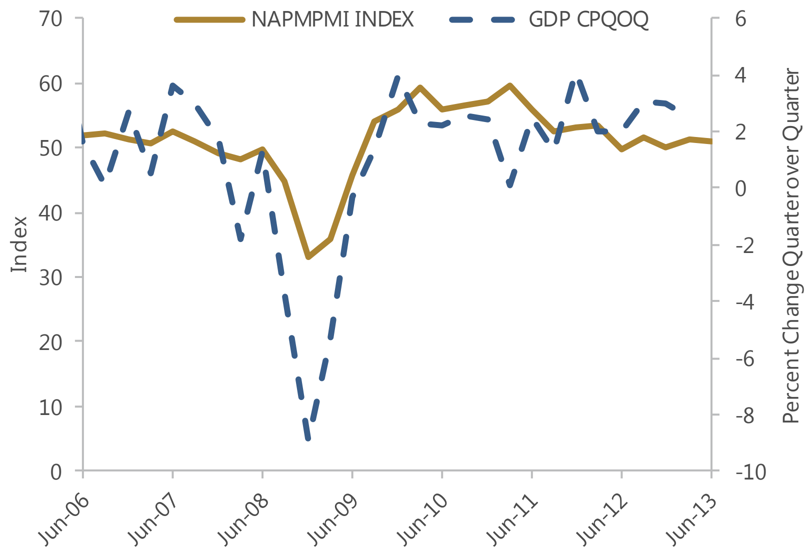
Bond Market Returns - Excess Over Treasuries



Source: Barclays as of June 30, 2013

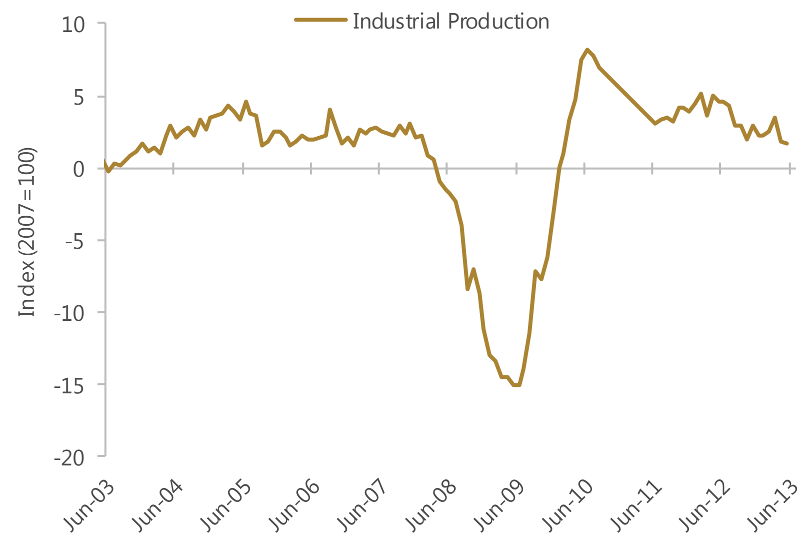
Real GDP & Manufacturing Activity

United States Purchasing Managers Index and Real GDP



Source: Bloomberg as of June 30, 2013

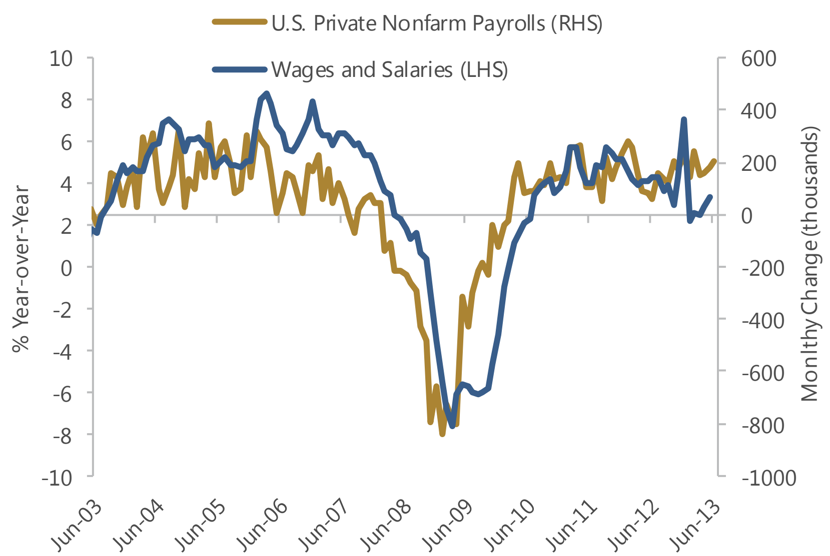
U.S. Industrial Production Year Over Year



Source: Bloomberg as of June 30, 2013

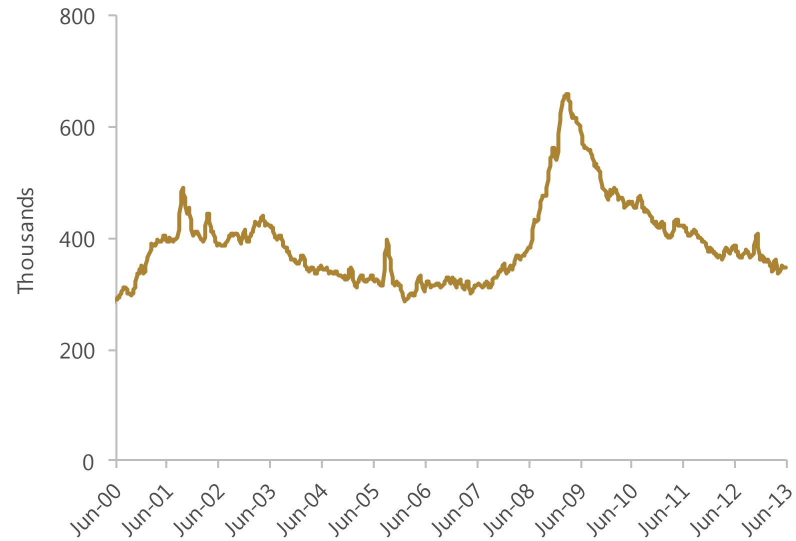
Employment

Private Employment and Wages and Salaries



Source: Bloomberg as of June 30, 2013

Weekly Jobless Claims 4 Week Moving Average



Source: Bloomberg as of June 30, 2013

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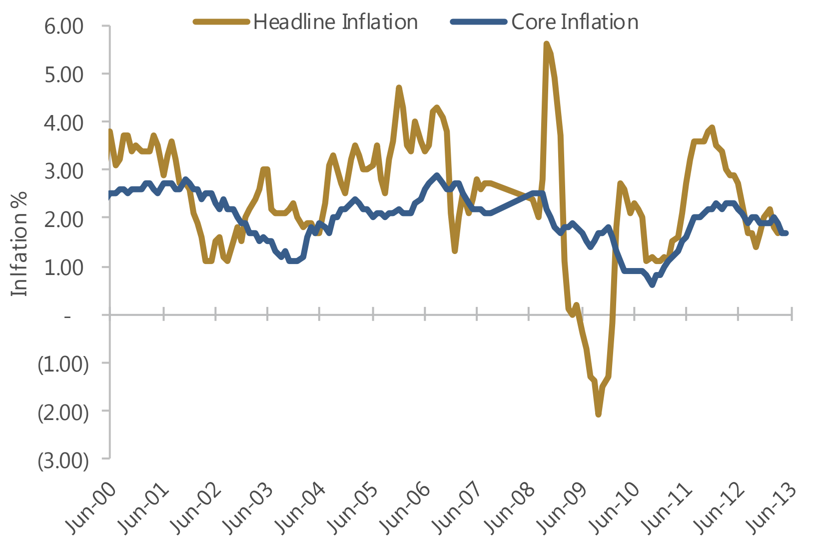
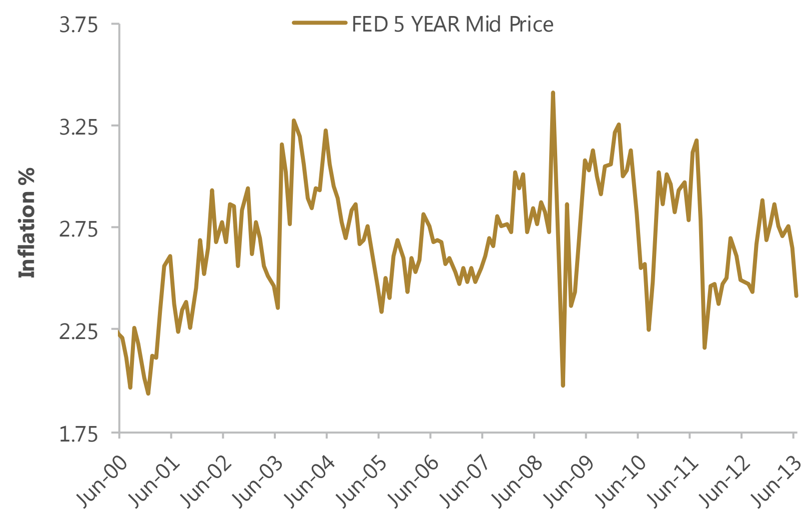
Core Inflation & Inflation Expectations

Headline versus Core Inflation



Source: Bloomberg as of June 30, 2013

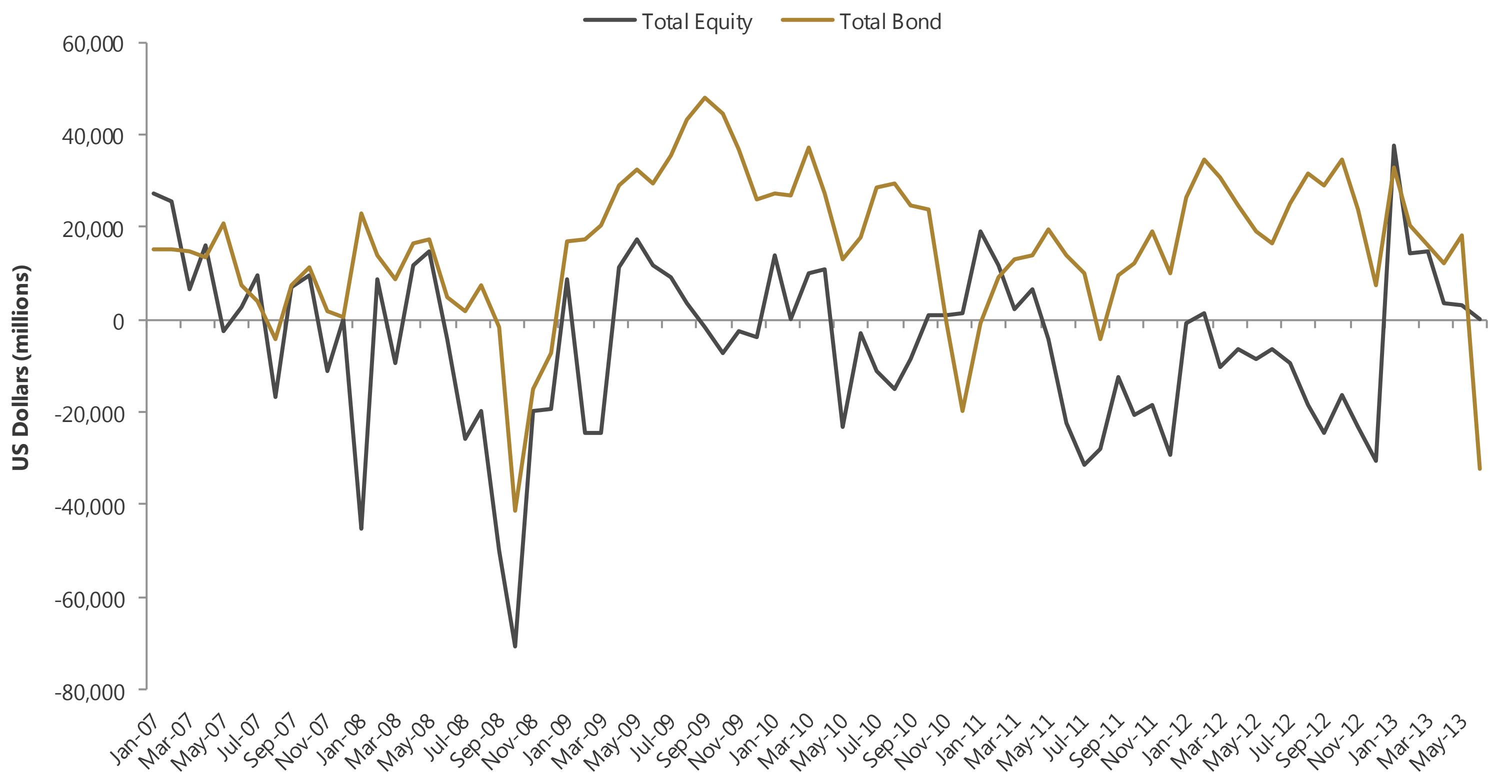
5yr BEI/5 yrs Forward



Source: Bloomberg as of June 30, 2013

Stock and Bond Flows Have Been Down Over Past Month

Net Inflows



Source: Investment Company Institute as of June 27, 2013

Global Growth and Inflation Forecasts

July 2013	Standish						IMF					
	Real GDP			CPI			Real GDP			CPI		
Survey	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
United States	2.2	1.8	2.2	1.8	1.8	1.8	2.2	1.9	3.0	1.8	1.7	1.8
Japan	2.0	2.2	1.8	-0.2	0.7	3.0	2.0	1.6	1.4	-0.2	0.7	3.6
United Kingdom	0.2	0.6	1.5	2.6	2.8	2.4	0.2	0.7	1.5	2.6	2.6	2.4
Euro-zone	-0.6	-0.7	1.0	2.2	1.0	1.4	-0.6	-0.3	1.1	2.2	1.6	1.4
Developing Asia	6.6	6.7	6.5	4.7	4.2	4.3	6.6	7.0	7.1	4.7	5.1	4.8
Eastern Europe & CIS	2.6	2.5	3.2	5.6	4.8	4.8	2.6	2.9	3.5	5.6	5.4	5.2
Latin America	3.0	3.4	3.4	5.9	6.9	6.8	3.0	3.4	3.9	5.9	6.1	5.5
Global	3.1	3.1	3.5	3.8	3.5	3.6	3.1	3.2	3.8	3.8	3.7	3.7

Source: Standish and the International Monetary Fund forecasts as of January 2013 based on purchasing power parity.
F=Forecast
Please see important disclosures at the end of this presentation.

Section III.

State of West Virginia BRIM

State of West Virginia BRIM Market Values

State of West Virginia Retro-Natl Union	**Market Value: $10,879,633**
State of West Virgina - BRIM 2005-06	**Market Value: $7,007,661**
State of West Virginia - BRIM 2006-07	**Market Value: $13,390,874**
State of West Virginia - BRIM 2007-08	**Market Value: $21,518,932**
State of West Virginia - BRIM 2008-09	**Market Value: $24,287,703**
State of West Virginia - BRIM 2009-10	**Market Value: $26,520,525**
State of West Virginia - BRIM 2010-11	**Market Value: $25,534,390**
State of West Virginia - BRIM 2011-12	**Market Value: $32,770,573**
State of West Virginia - BRIM 2012-13	**Market Value: $46,063,038**
Total	**Market Value: $207,973,329**

State of West Virginia BRIM

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/05 (%)
Total Return						
State of West Virgina – BRIM 2005-06	-1.34	-1.17	-0.51	2.31	4.00	4.40
Barclays US Government Intermediate	1.37	-1.23	-0.59	2.33	3.80	4.34
Value Added	-2.71	0.06	0.07	-0.02	0.20	0.06
Market Value: $7,007,661.38						

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/06 (%)
Total Return						
State of West Virginia - BRIM 2006-07	-1.35	-1.18	-0.53	2.29	3.95	4.69
Barclays US Government Intermediate	-1.37	-1.23	-0.59	2.33	3.80	4.69
Value Added	0.02	0.05	0.06	-0.04	0.15	0.00
Market Value: $13,390,874.38						

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception 7/31/07 (%)
Total Return						
State of West Virginia - BRIM 2007-08	-1.35	-1.18	-0.51	2.27	3.96	4.57
Barclays US Government Intermediate	-1.37	-1.23	-0.59	2.33	3.80	4.53
Value Added	0.03	0.05	0.07	-0.06	0.16	0.04
Market Value: $21,518,932.05						

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State of West Virginia BRIM

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	3 Year (%)	Since Inception 1/31/09 (%)
Total Return					
State of West Virginia - BRIM 2008-09	-1.33	-1.16	-0.50	2.29	2.83
Barclays US Government Intermediate	-1.37	-1.23	-0.59	2.33	2.89
Value Added	0.04	0.07	0.09	-0.04	-0.07
Market Value: $24,287,703.36					

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	3 Year (%)	Since Inception 8/31/09 (%)
Total Return					
State of West Virginia - BRIM 2009-10	-1.34	-1.18	-0.52	2.27	3.02
Barclays US Government Intermediate	-1.37	-1.23	-0.59	2.33	3.01
Value Added	0.03	0.05	0.07	-0.06	0.01
Market Value: $26,520,524.83					

Portfolio performance as of 6/30/13

	3 months (%)		1 Year (%)	3 Year (%)	Since Inception 9/30/09 (%)
Total Return					
State of West Virginia Retro-Natl Union	-1.33	-1.17	-0.50	2.31	2.90
Barclays US Government Intermediate	-1.37	-1.23	-0.59	2.33	2.93
Value Added	0.04	0.07	0.08	-0.02	-0.02
Market Value: $10,879,633.07					

State of West Virginia BRIM

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	Since Inception 8/31/10 (%)
Total Return				
State of West Virginia - BRIM 2010-11	-1.34	-1.17	-0.52	1.79
Barclays US Government Intermediate	-1.37	-1.23	-0.59	1.81
Value Added	0.04	0.06	0.07	-0.01
Market Value: $25,534,389.80				

Portfolio performance as of 6/30/13

	3 months (%)	YTD	1 Year (%)	Since Inception 8/31/11 (%)
Total Return				
State of West Virginia - BRIM 2011-12	-1.33	-1.18	-0.52	0.77
Barclays US Government Intermediate	-1.37	-1.23	-0.59	0.77
Value Added	0.04	0.06	0.07	0.00
Market Value: $32,770,572.57				

Portfolio performance as of 6/30/13

	3 months (%)	YTD	Since Inception 7/31/12 (%)
Total Return			
State of West Virginia - BRIM 2012-13	-1.34	-1.17	-0.98
Barclays US Government Intermediate	-1.37	-1.23	-1.17
Value Added	0.03	0.06	0.19
Market Value: $46,063,038.20			

Outlook & Strategy – Interest Rate Strategies

Investment Environment

Fed communications indicate a desire to reduce the asset purchase program in the coming months in response to the "considerable" improvement in the labor market since the introduction of the latest purchase program in September 2012. The Fed continues to make a strong distinction between slowing/ending balance sheet expansion and tightening of monetary policy, however there is continued debate on the timing of ending further security purchases which has generated significant market volatility.

Portfolio Strategy

Strategic duration bias continues to be neutral to short performance benchmarks. Tactically, positioning will shift in response to volatility and market valuations relative to expected outcome. Specifically, overweight duration in short maturity accounts reflects market not distinguishing between tapering and tightening.

Investment Environment: Higher interest rates, increased volatility and uncertainty over Fed purchase program has weighed on agency mortgage valuations. The long duration of low coupons and future market environment that is less dependent on Fed or GSE purchases requires a valuation concession in excess of recent historical averages.

Portfolio Strategy: Underweight agency mortgages. Coupon focus is moving towards higher coupons to take advantage of more attractive valuations and reduced policy risks associated with an improving housing market..

Investment Environment: Increased financial market volatility and fears of preemptive Fed tightening have cheapened TIPS valuations materially relative to nominal Treasury securities. While risk of monetary policy error has risen somewhat, the relative illiquidity of TIPS and restrained dealer balance sheets have caused TIPS valuations to overshoot fundamental valuations.

Portfolio Strategy: Tactical long positions in intermediate maturity TIPS versus nominal Treasuries to take advantage of overpriced liquidity premium and cheap inflation protection. Avoid short maturities that are vulnerable to downside volatility in energy based commodities that may occur with further downgrading of China growth expectations.

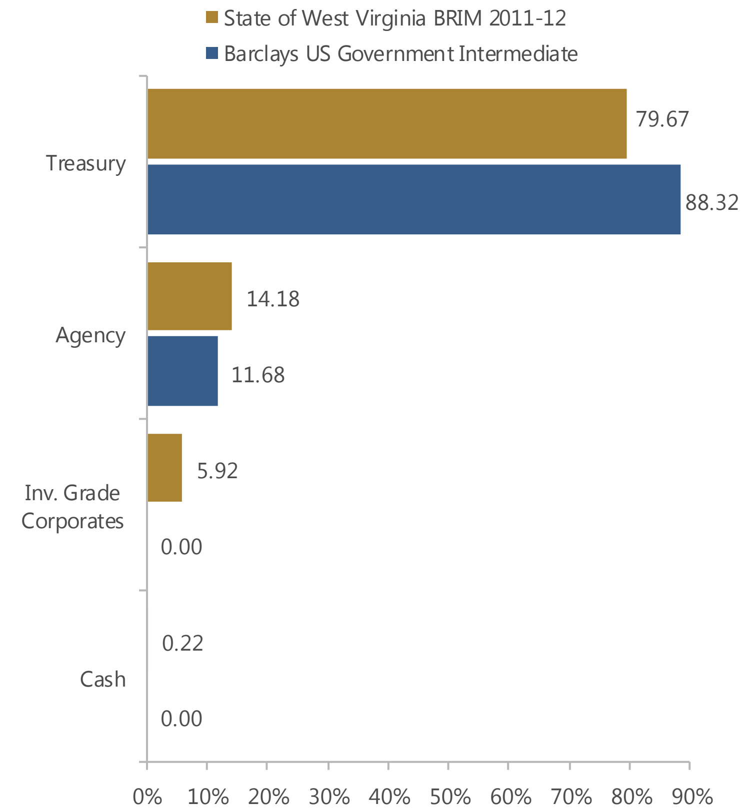
Risks[1]

- Fiscal policy driven growth slowdown results in recession
- Premature monetary policy tightening results in tighter financial conditions and deleveraging of carry trades

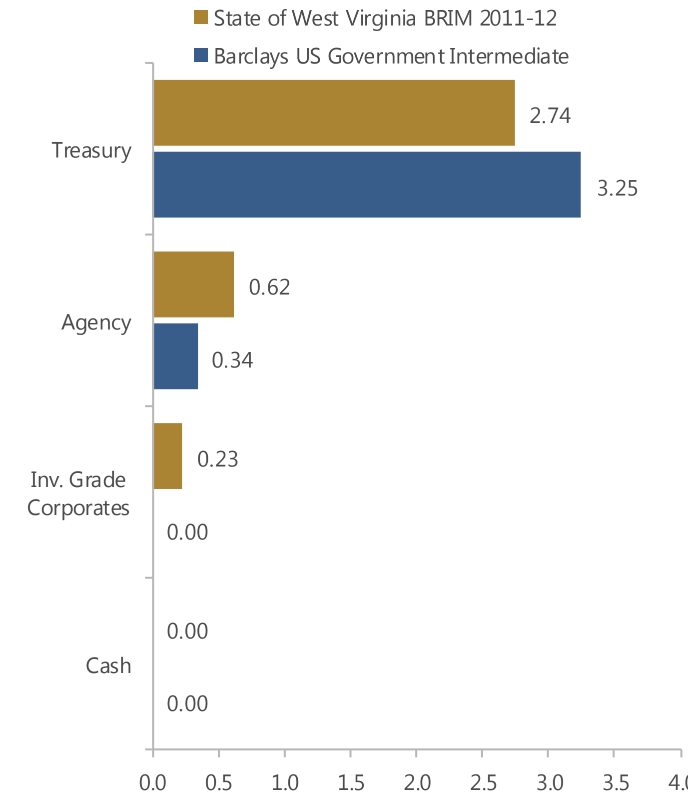
[1] This is not an exhaustive list. Portfolio holdings are subject to change at any time.
Note: As of June 30, 2013

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

Nominal (%) as of 6/30/2013



Contribution to Duration (Years) as of 6/30/2013



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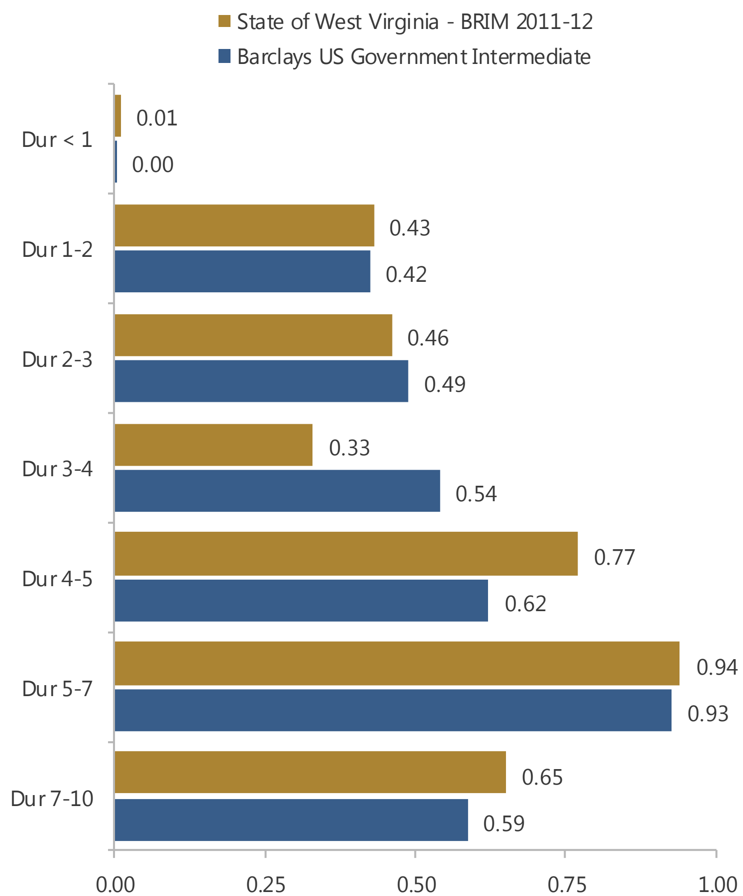
State of West Virginia – BRIM 2011-12 Duration & Characteristics

Portfolio vs Index as of 6/30/2013



Portfolio Duration: 3.59 years
Index Duration: 3.59 years

Summary Characteristics

	Portfolio	Index
Duration	3.59 years	3.59 years
Quality	AAA	AAA
Yield to Maturity	1.01%	0.97%
Average Maturity	3.64 years	3.81 years
Coupon	1.43%	1.96%

Corporate Holdings

Security Name	Maturity	Duration	Yield	Coupon	S&P Rating	Pct %
BERKSHIRE HATHAWAY FIN	5/15/17	3.78	1.71	1.60	AA	1.13%
APPLE INC	5/3/18	4.76	1.86	1.00	AA+	0.48%
CHEVRON CORP	12/5/17	4.34	1.64	1.10	AA	1.10%
COLGATE-PALMOLIVE CO	5/1/18	4.76	1.72	0.90	AA-	0.49%
MICROSOFT CORP	11/15/17	4.32	1.56	0.88	AAA	0.79%
SHELL INTERNATIONAL FIN	12/4/15	2.42	0.67	0.63	AA	1.14%
TOTAL CAPITAL CANADA LTD	1/15/18	4.41	1.99	1.45	AA-	0.30%
TOTAL CAPITAL INTL SA	2/17/17	3.54	1.69	1.50	AA-	0.49%

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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

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

Relationship Manager
Laura Zink
617-248-6304
lzink@standish.com

Client Service Associate
Christopher Sabo
617-248-6169
csabo@standish.com

Comprehensive Relationship Manager

- 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

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Section V.

Guideline Checklist

STANDISH GUIDELINE CHECKLIST

Account Name: STATE OF WEST VIRGINIA- BRIM 2012- 2014 Account Number: 100000

Portfolio Manager: Scott Mountain Date: 7/2013

Quality Rating:					
AGENCY:		**DOWNGRADES TO BELOW MINIMUM QUALITY:**		Prompt written notice of downgrades with managers position on the issue and intended action	
Any NRSRO				Minimum Quality	AA-, as established by two or more of the nationally recognized bond ratings services;
S&P	X			Average Quality	AA-
Moody's	X			Short Term Securities	Money Market Funds rated AAA by major ratings agency allowed
Duff & Phelps				Split Rated (Best/Worst/Middle)	Middle
Fitch	X			Concentrations	

INVESTMENTS	Type of Investment	Eligible	Prohibited	Comments	Date
General:	Tax-Exempt Securities		X		
	AMT Bonds		X		
Taxable Bonds	Treasuries	X			
	Agencies	X			
	TIPS		X		
	Corporates	X			
	Zero Coupon	X			
	Convertible Issues		X		
	Structured Notes		X		
	Surplus Notes		X		
	Preferred		X		
	Private Placement/144A		X		
	Preferred Stock		X		
Securitized:	Mtge-Related Sec.		X		
	CMBS		X		
	Asset-Backed Sec.		X		
	CMOs		X		
	CDOs		X		
	IOs and/or POs		X		

Account Name: STATE OF WEST Virginia- BRIM 2011-12

Account Number: 637

Type of Investment		Eligible	Prohibited	Comments	Date
Foreign-Related:	By issue country		X		
	Non-Dollar		X		
	Emerging Markets		X		
	Yankee	X		Yankee Bonds Allowed meeting all other min guideline restrictions.	
Derivatives:	Futures		X		
	Options		X		
	Currency Forwards		X		
	Leverage		X		
	SWAPS		X		
Other:	Trade Finance		X		
	Repo /Reverse Repo	X			
	Equity		X		

Issuer / Obligor 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:	Weighted average	
	Issue	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
	Issue	
Benchmark Index		Barclays Capital 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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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.

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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.

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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.

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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.

STANDISH

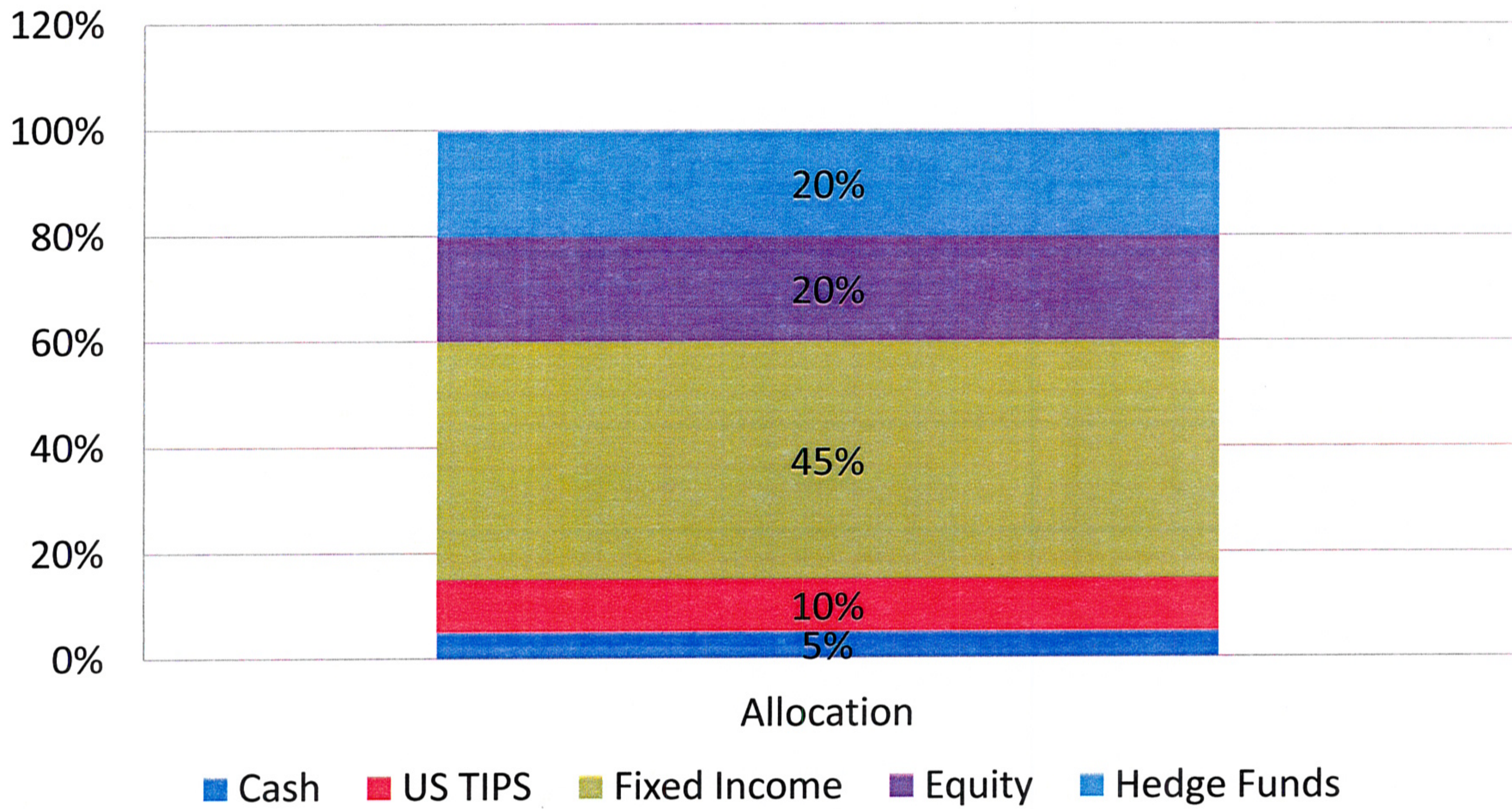
BNY MELLON

BRIM - Investments

WV Investment Management Board

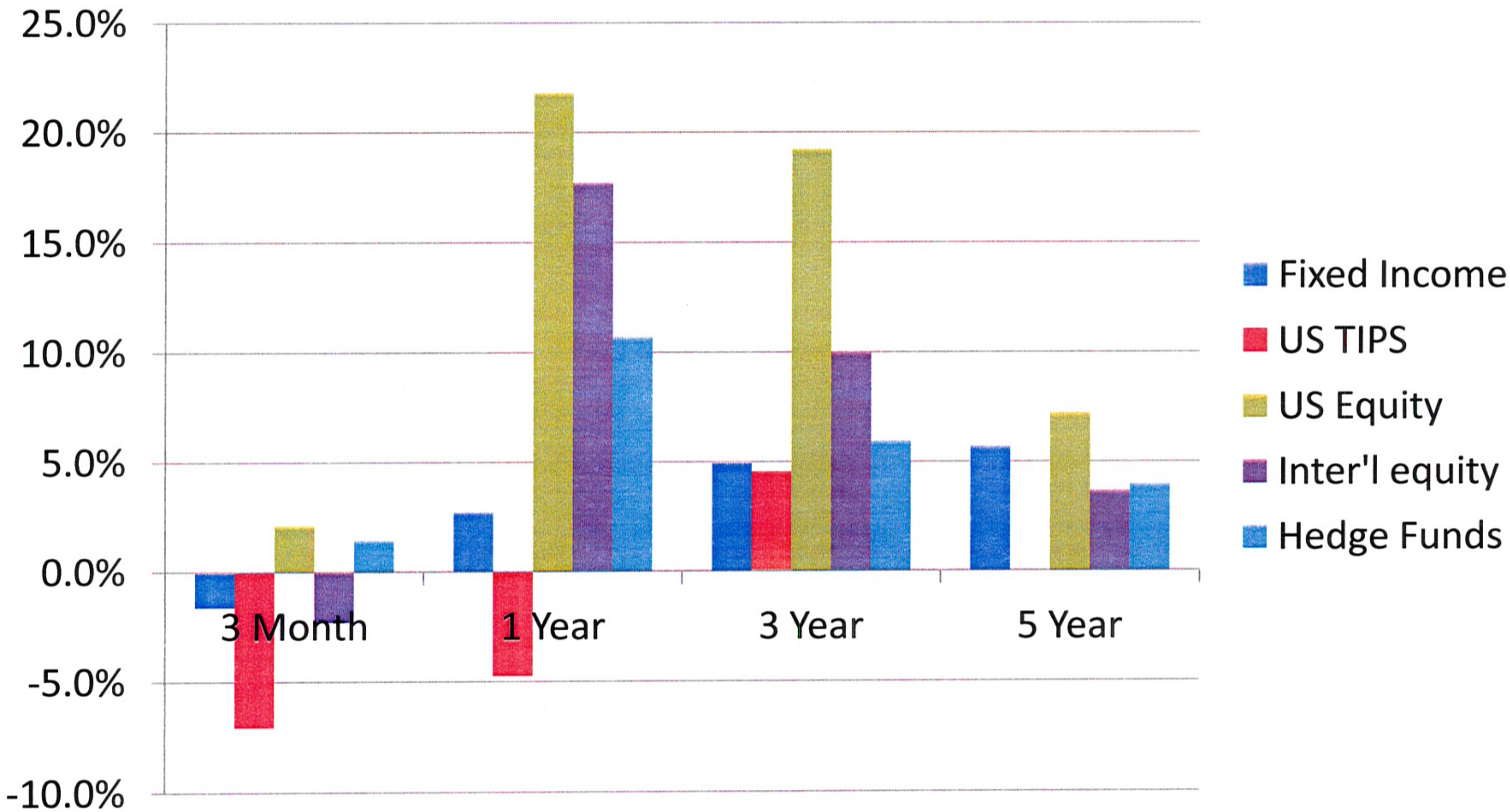
8/16/13

Asset Allocation

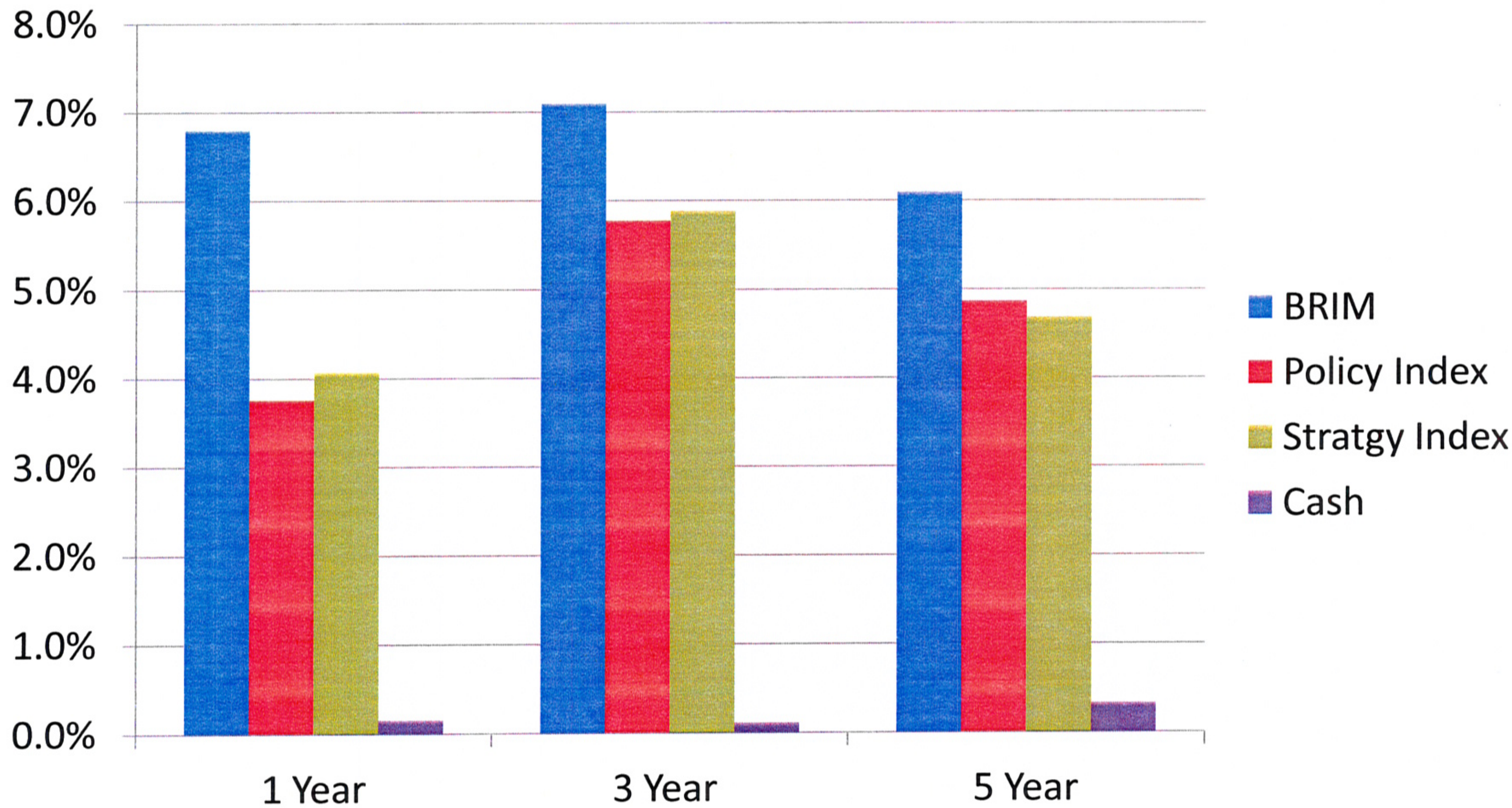


Asset Class Performance

June 30, 2013

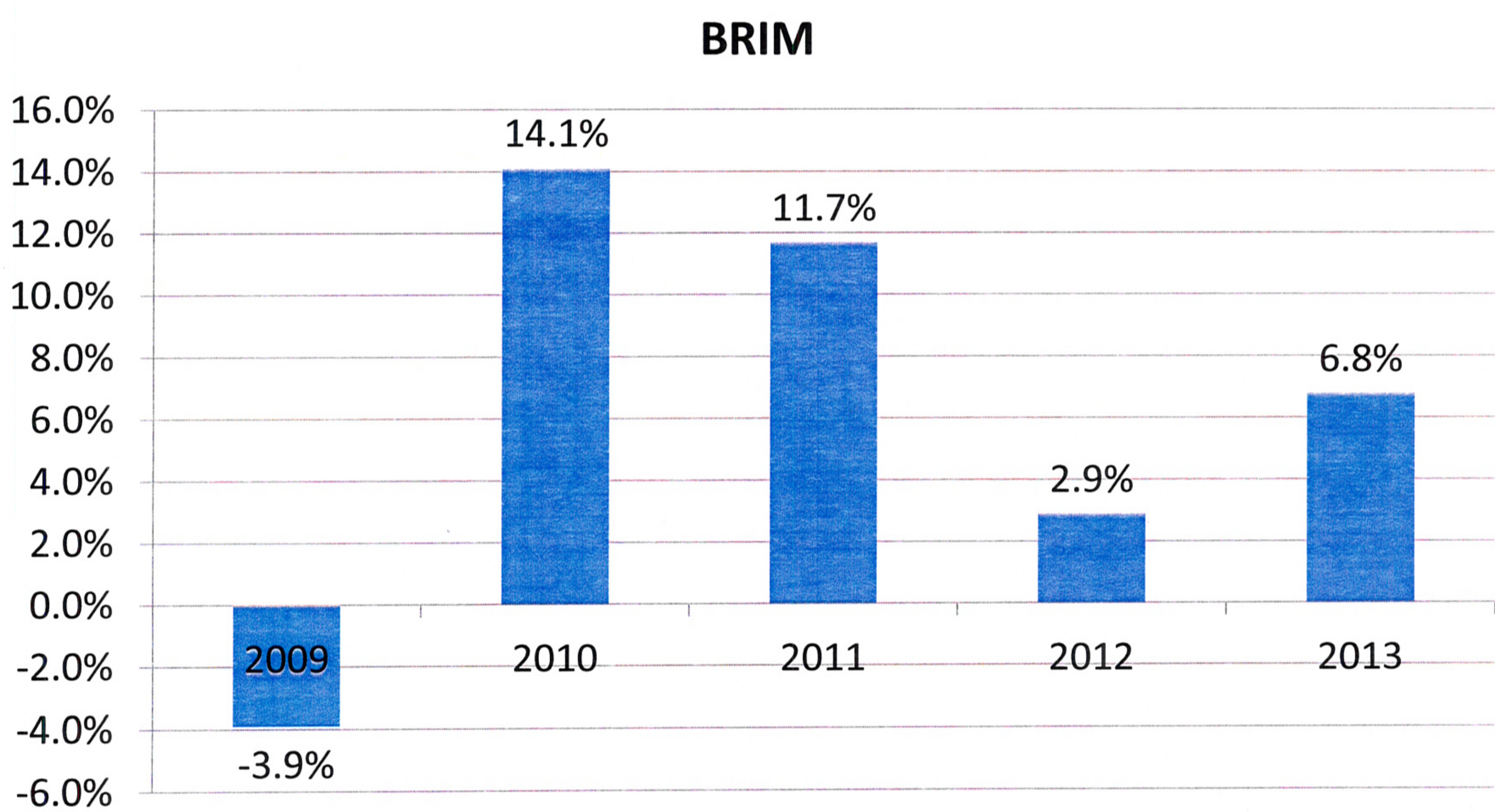


Performance
June 30, 2013



Performance by Fiscal Year

Years ending June 30

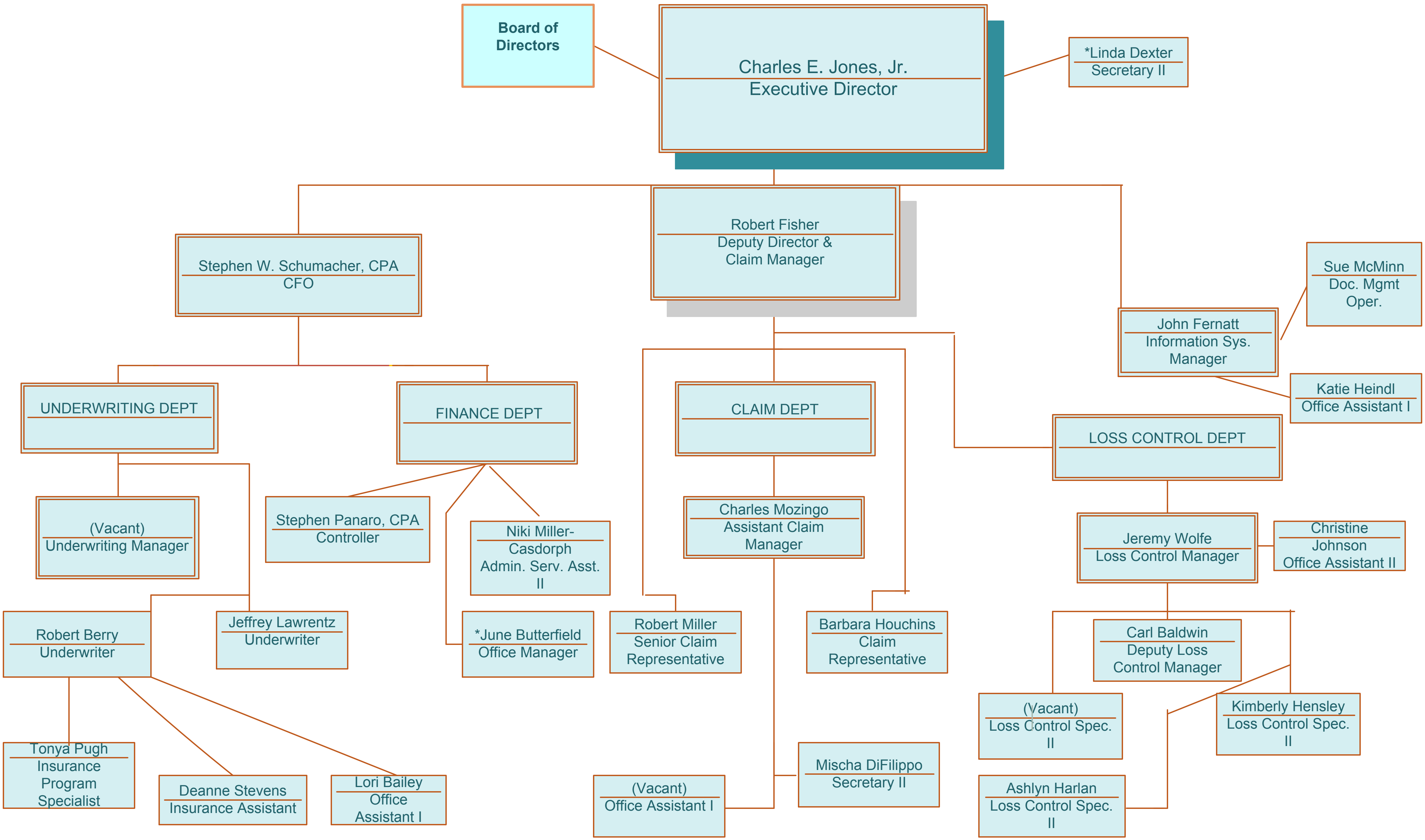


Earl Ray Tomblin
Governor
State of West Virginia

BOARD OF RISK AND INSURANCE MANAGEMENT

As of June 30, 2014

Ross Taylor, Cabinet Secretary
Department of Administration



*indicates temporary employment