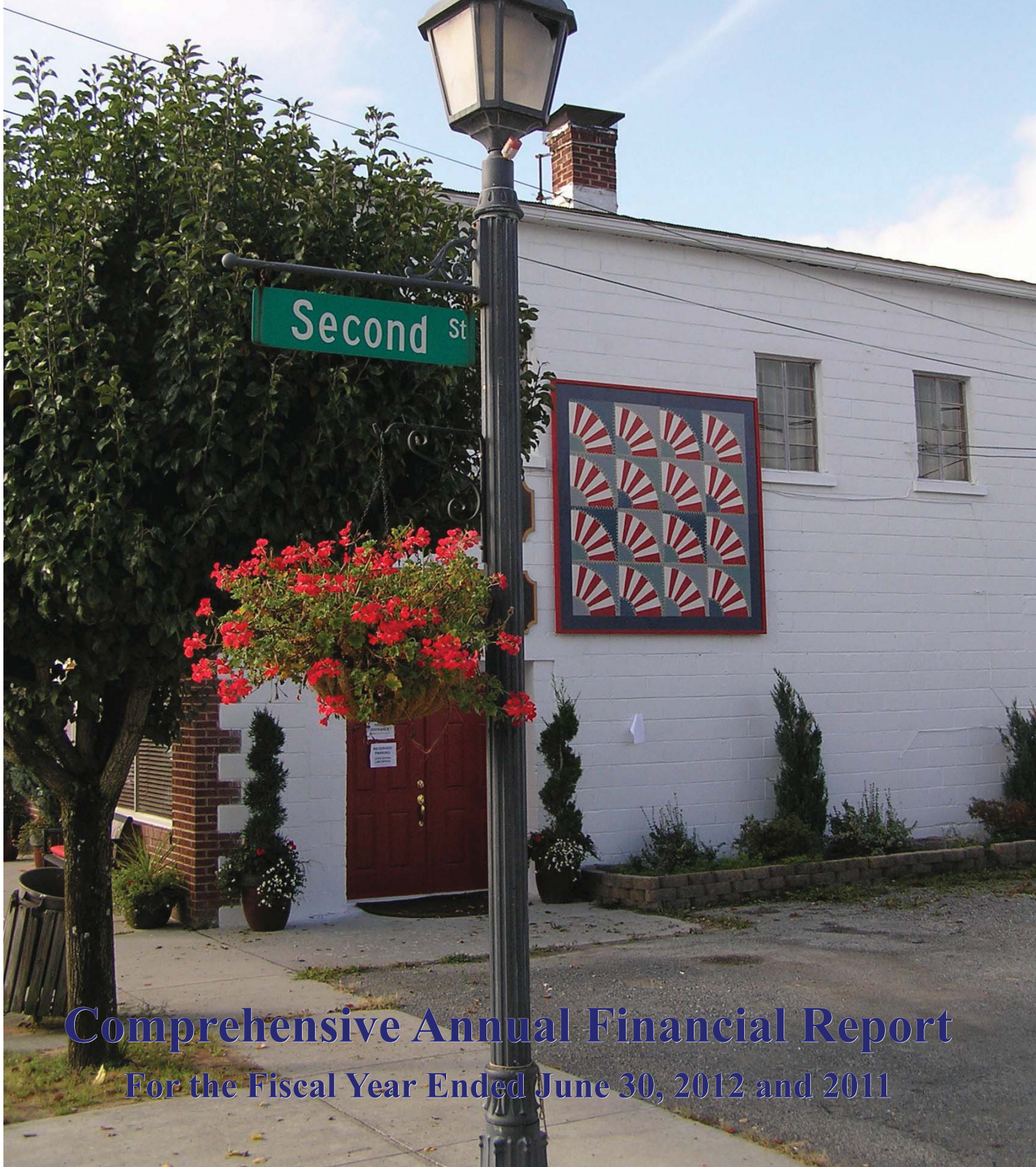


State of West Virginia
Board of Risk and Insurance Management
(An enterprise fund of the primary government of West Virginia)



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012 and 2011

Monroe County Quilt Trail

This Trail features quilt designs painted on large boards and hung on various buildings and barns around the county. Many individuals and organizations in Monroe County and the state of West Virginia worked together to make the Trail possible.

On the Cover – Civil War Fans – Based on actual quilt made from Union and Confederate uniforms located at Second and Main Streets, Union. Photographs used in this report were courtesy of photographers, Helen Graves and Burke Shires, with the Monroe County Tourism.

State of West Virginia

Board of Risk and Insurance Management

(An enterprise fund of the primary government of West Virginia)

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011



Earl Ray Tomblin

Governor

Ross Taylor

Acting Secretary Department of Administration

Charles E. Jones, Jr., Executive Director

West Virginia Board of Risk and Insurance Management

Prepared by

Stephen W. Schumacher, CPA, Chief Financial Officer

West Virginia Board of Risk and Insurance Management

State of West Virginia
Board of Risk and Insurance Management
(An enterprise fund of the primary government of West Virginia)

Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2012 and 2011

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Introductory Section



Oak Leaf – Located on Route 219, Pickway. This quilt piece was painted by artist/former AmeriCorps volunteer Joan Menard and donated by the Menard Family.

**State of West Virginia
Board of Risk and Insurance Management**

PRINCIPAL OFFICIALS

Earl Ray Tomblin, Governor

Acting Secretary of Department of Administration
Ross Taylor

Board of Directors

John Lukens, Chairperson
Bruce Martin, Vice Chairperson
S.A. Cunningham, CPA, Member
Martin Glasser, Member
Dr. Robert B. Walker, Member

Executive Staff

Charles E. Jones, Jr., Executive Director
Stephen W. Schumacher, CPA, Chief Financial Officer

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



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

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

Earl Ray Tomblin
Governor

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

Ross Taylor
Acting Cabinet Secretary

Formal Transmittal of Comprehensive Annual Financial Report (CAFR)

December 15, 2012

Honorable Earl Ray Tomblin, Governor
State of West Virginia

Board of Directors
West Virginia Board of Risk and Insurance Management

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

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the West Virginia Board of Risk and Insurance Management (BRIM) for the year ended June 30, 2012, is hereby respectfully submitted. This report was prepared by the Finance Department of BRIM. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management of BRIM. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of BRIM. All disclosures necessary to enable the reader to gain an understanding of BRIM's financial activities have been included. The financial statements of BRIM have been prepared on an accrual basis in conformity with Generally Accepted Accounting Principles (GAAP) for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. BRIM's MD&A can be found immediately following the report of the independent auditors.

Management is responsible for establishing and maintaining internal control designed to ensure that the assets of BRIM are protected from loss, theft or misuse and that the preparation of the financial statements is in conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived from it, and (2) the valuation of costs and benefits requires estimates and judgments by management. Management of BRIM has established a comprehensive internal control framework that is designed to provide a reasonable basis for making representations concerning the finances of BRIM. Because the cost of internal control should not outweigh its benefits, BRIM's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

PROFILE OF BRIM

BRIM is reported as an enterprise fund operating as a single business segment, included in the primary government in the State of West Virginia's CAFR.

BRIM is governed by a board of up to five members appointed by the governor. BRIM operates by the authority granted in Chapter 29, Article 12; and Chapter 33, Article 30 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 of Directors.

BRIM is charged with providing insurance coverage to all state agencies, which number 167. Additionally, BRIM provides these services to cities, counties, and non-profit organizations throughout the State under the provisions of Senate Bill 3 (SB 3). Currently, BRIM insures approximately 940 of these organizations. 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. Currently, BRIM underwrites over 15,000 commercial and personal mine subsidence policies annually.

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. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies non-renewing policies for health care providers on a national level, and in the State. The private physician part of this program was novated to the West Virginia Physician's Mutual Insurance Company on July 1, 2004.

All HB601 policies were non-renewed as of June 30, 2004. However, BRIM still maintains the run-off of claims that were made during the effective period or claims relating to tail coverage purchased. This tail coverage covers the insured on any IBNR claims during the policy period. See further discussion of House Bill 601 program in the MD&A section.

Effective July 1, 2005, BRIM established an annual pre-funding trust program with a financial institution that covers all liability claims with loss dates occurring after June 30, 2005. With this program, a separate sub-account that coincides with the current claim and fiscal year is created within the trust account. The sub-account for the current claim/fiscal year is then fully funded by BRIM during the current fiscal year. This advance deposit funding ensures that each year's sub-account covers the total actuarially determined estimated liability claims costs for those liability claims with loss dates whose occurrence corresponds with that specific claim/fiscal year. The financial institution, acting as trustee, holds these funds within the sub-accounts in the trust to cover BRIM's estimated liability claims costs for all liability claims.

In fiscal year 2010, BRIM transferred the remaining advance deposits being held in accounts maintained by the insurance company, or carrier, into the existing BNY trust vehicle to fund all outstanding liability claims with loss dates before July 1, 2005. A sub-account was established with sufficient funding to cover the total actuarially determined estimated liability claims costs for all of those claims with loss dates whose occurrence are dated June 30, 2005 and earlier.

The funds, together with their earnings, are used to pay claims and claims adjustment expenses related to these liability claims. As escrow agent, the financial institution periodically transfers monies from the trust 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. BRIM is not indemnified by the carrier, and the carrier is compensated for claims handling by a negotiated fixed fee that is paid directly to the carrier.

Property losses are retained by BRIM up to \$1 million. Additional coverage is provided up to a limit of \$400 million through various excess policies. This coverage provides reimbursement of loss at the stated or reported value less a \$1,000 deductible. Under the mine subsidence program, ceding insurers pay BRIM a reinsurance premium. In exchange the ceding insurers are paid a commission for the business they placed with BRIM.

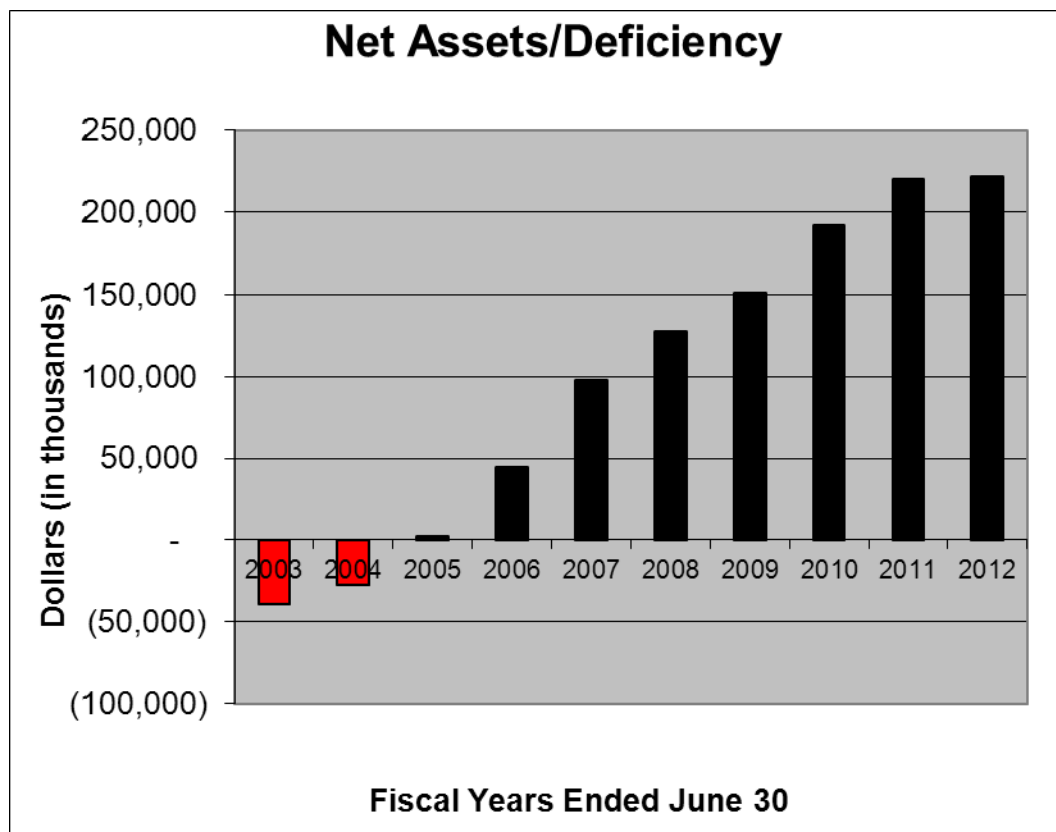
ASSESSING BRIM'S FINANCIAL CONDITION

Net Assets

One of management's major goals was to eliminate the net asset deficiency that existed in prior years. The deficiency in net assets developed in the past due to several factors, including unanticipated losses and adverse loss development in state agency and Senate Bill 3 entity coverages for general liability and medical malpractice lines of business. Declining investment returns also were a contributing factor. In fiscal year 2004, management adopted a financial stability plan to address the

deficiency in net assets. As of June 30, 2012, BRIM has total net assets of \$221,515,000 reflected on the Statement of Net Assets. Management anticipates that net assets will continue to remain positive. For more detailed information see the MD&A included in the financial section of this report.

The chart below shows the net assets/deficiency for the past ten years. The years in black represent positive net assets and the years in red represent a net asset deficiency (or unfunded liability).

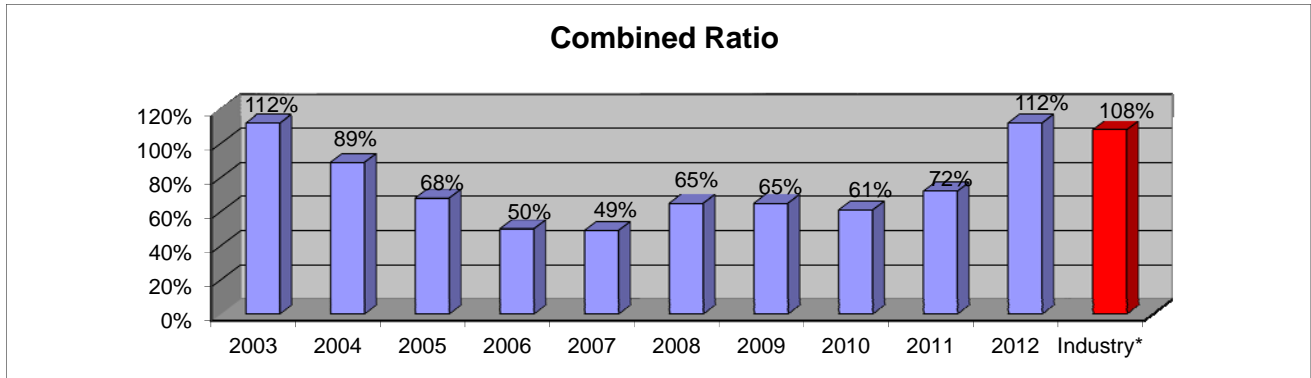


BRIM's improvement in financial position has generally outperformed the commercial insurance industry over the past several years.

Combined Financial Ratio

The combined ratio is one of the key ratios used to measure underwriting performance. It is derived by adding the loss and expense ratio. A combined ratio below 100% indicates an underwriting profit and one above 100% indicates an underwriting loss. BRIM's combined ratio for 2012 reflects an underwriting loss and is slightly higher than the industry average. Historically, BRIM's primary advantage over the commercial insurance market has been low administrative costs, which are kept at a relatively stable 5 to 10%, as compared to the insurance industry market rate of 29%. The lower administrative costs have enabled BRIM to keep this key financial ratio well below the industry

average. Decreases in BRIM’s claims reserves also have contributed to the lower combined ratios experienced by BRIM prior to 2012. But, based on the most recent risk funding study completed, BRIM saw an increase in claims reserves in 2012 when compared to overall reserve decreases seen from 2003 thru 2011. The increase in claims reserves for 2012, coupled with the lower premiums billed for 2012, had an unfavorable impact on BRIM’s combined ratio for fiscal year 2012, in particular when compared to recent years and the industry average. The BRIM combined ratios are shown in the chart below in blue and the industry is in red.



*The industry data shown above was obtained from Standard and Poor’s Industry Surveys, Insurance: Property / Casualty, September 20, 2012.

Investment Strategy

For several years prior to 2005, BRIM’s investment returns had been declining. During this time BRIM was limited, by code, to certain low risk, short-term investments. In anticipation of revisions to be made to the state code that would become effective beginning in fiscal year 2005, BRIM and the West Virginia Investment Management Board (WVIMB) began working, in fiscal year 2004, on a solution to maximize returns. The WVIMB developed a suggested investment strategy with 20% in equities, 65% in fixed income securities and 15% in cash. This arrangement was finalized and approved by BRIM’s Board with the actual investment transition not occurring until fiscal year 2005. As a result of these changes, BRIM’s long-term investments are now managed by the WVIMB based on their recommendations. Also, beginning in 2006, BRIM’s excess short-term cash funds have been managed by the West Virginia Board of Treasury Investments (BTI). Therefore, the cash portion of BRIM’s investments is maintained in accounts with the BTI that are similar to the low-risk money market funds that were previously maintained by the State Treasurer’s Office. The combined investment strategy is similar to those used by commercial insurers. Consequently, beginning in 2005, investment earnings have improved over those of the years prior to 2005.

The WVIMB also recommended that BRIM reallocate its funds managed by the WVIMB and BRIM’s board approved the WVIMB’s recommendation. Beginning in early 2009, the WVIMB repositioned one third of the funds previously held in fixed income securities into an approved group of well-established, fixed-income based hedge funds. In fiscal year 2011, BRIM accepted the WVIMB’s additional recommendation to further diversify BRIM’s holdings with the WVIMB by

investing a small percentage in a Treasury Inflation Protection Securities (TIPS) pool as a hedge against inflation.

Volatile conditions in the financial markets resulted in significant investment losses for BRIM for the first half of fiscal year 2009. However, the first half losses were more than offset by significant improvements in the markets in the second half of fiscal year 2009 and have continued to provide positive returns through fiscal year 2012.

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 BRIM and to provide assistance to our insureds. Through the claim department section, insureds can find a claim submission form, instructions for submitting a claim and information on claim status. Our underwriting section contains information on adding exposures to the policy (such as autos or property) and contains annual renewal forms. The loss control division of BRIM maintains a wealth of risk management knowledge where you can view information on safety topics and check out the latest dates for loss control seminars. A variety of frequently asked questions on topics ranging from billing to underwriting can also be found on this site.

Audit

The financial statements of BRIM are prepared on the accrual basis of accounting in conformity with GAAP. BRIM is required by the Financial Accounting and Reporting Section (FARS) of the Department of Administration and by State Code to have an annual independent audit. The firm of Ernst & Young, LLP was selected to perform the financial statement audit for the fiscal year ended June 30, 2012. The report of independent auditors on the basic financial statements is included in the financial section of this report.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

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, 2011. This was the seventeenth consecutive year that BRIM has achieved this prestigious award. 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 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.

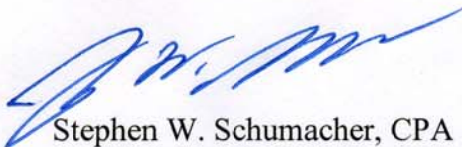
Acknowledgements

BRIM would like to thank the Governor, the Legislature, the Cabinet Secretary of Administration, and the Board of Directors of BRIM for their support and leadership.

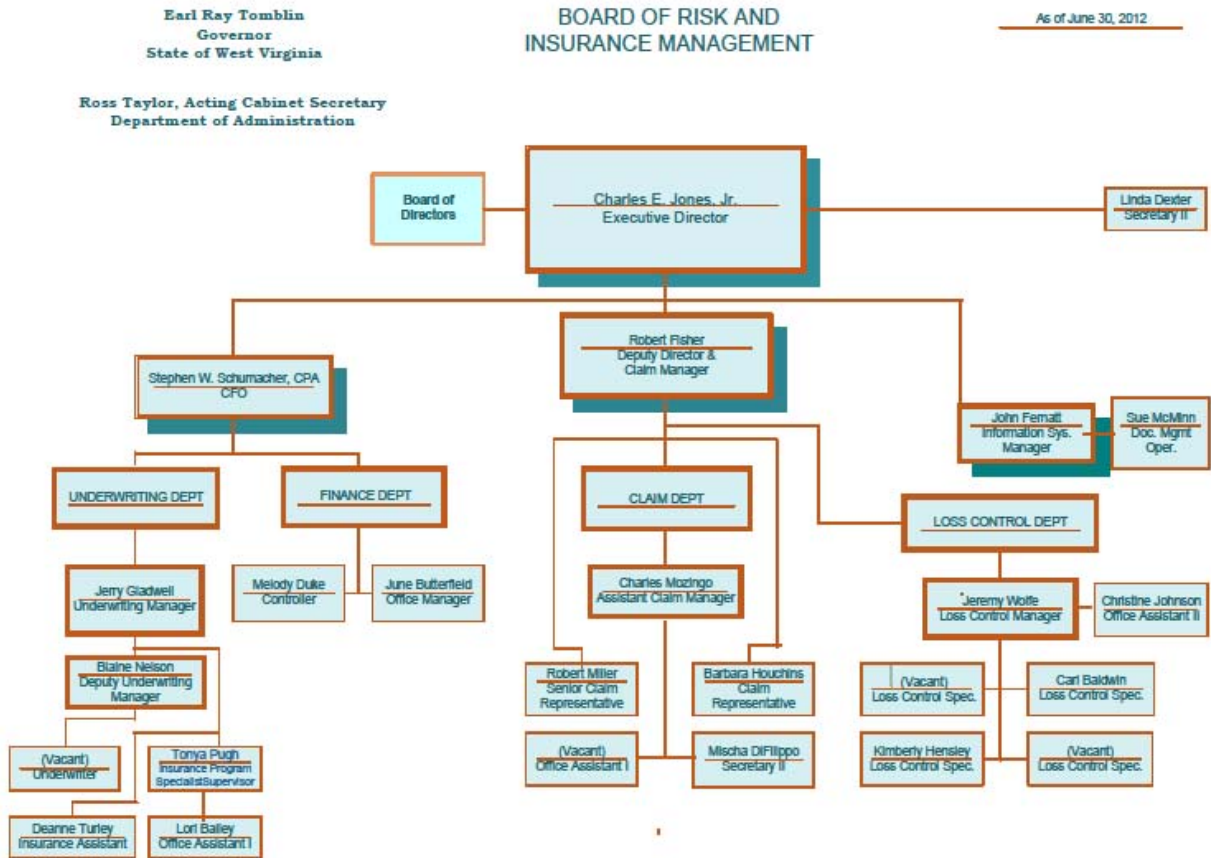
A special thank you is extended to the Executive Director, the Board of Directors' finance committee and the finance staff at BRIM. Their hard work and dedication made this report possible.

Respectfully, we hereby submit the West Virginia Board of Risk and Insurance Management Comprehensive Annual Financial Report for the year ended June 30, 2012.

Sincerely,



Stephen W. Schumacher, CPA
Chief Financial Officer



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of West Virginia Board of Risk & Insurance Management

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Mouill

President

Jeffrey R. Emer

Executive Director



Financial Section



Basket – Located on Route 3, Gap Mills. This piece is one of the original seven blocks that was chosen to be created and put on display throughout Monroe County. Painted by Joan Menard.

Report of Independent Auditors

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

We have audited the accompanying basic financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), an enterprise fund of the State of West Virginia, as of and for the year ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the BRIM's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of BRIM are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of the BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis on pages 16 through 23 and the unaudited supplemental schedules of Ten-Year Claims Development Information on page 58 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on BRIM's basic financial statements. The introductory and statistical sections of this report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

Ernst + Young LLP

October 15, 2012

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis

Year Ended June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Management of the West Virginia Board of Risk and Insurance Management (BRIM) provides this Management's Discussion and Analysis for readers of BRIM's financial statements. This narrative overview of the financial activities of BRIM is for the years ended June 30, 2012, 2011, and 2010. BRIM provides property and casualty insurance to State of West Virginia (the State) agencies and Senate Bill 3 (SB3) entities, which include boards of education, and governmental and nonprofit organizations. BRIM also administers a coal mine subsidence reinsurance program, which makes available to the general public dwelling insurance covering damage caused by the collapse of underground coal mines. From December 2001 until novation to a physician's mutual on July 1, 2004, BRIM's program was expanded to include providing medical malpractice insurance to private sector health care providers (referred to hereafter as the House Bill 601 Program). The hospitals that were nonrenewed in 2003 are still being managed by BRIM for claims that were made during the period they were insured.

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

- *Statement of Net Assets* – This statement presents information reflecting BRIM's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- *Statement of Revenues, Expenses, and Changes in Net Assets* – This statement reflects the operating and nonoperating revenues and expenses for the operating year. Operating revenues primarily consist of premium income with major sources of operating expenses being claims loss and loss adjustment expense and general and administrative expenses. Nonoperating revenues primarily consist of investment income and appropriations from the State.
- *Statement of Cash Flows* – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, noncapital financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

(Dollars in Thousands)

The following tables summarize the financial position and the results of operations as of and for the years ended June 30, 2012, 2011, and 2010:

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

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

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

- Total assets increased by \$11,763 in 2012 and \$17,717 in 2011. The increases for both years can be largely attributed to investment returns on long-term investments holdings and the additions to advance deposits, including the earnings on the trust funds invested in both 2012 and 2011, exceeding the actual claims payments made for both years.
- Total liabilities increased \$10,076 in 2012 and decreased \$9,904 in 2011. Estimated claims expense increased in 2012, mostly from an unanticipated increase in State general liability claims (primarily in 2010 and 2011 reserves) and from a couple of large property loss occurrences that adversely impacted both the State and Senate Bill #3 (SB3) programs in 2012. The decrease for 2011 relates to trending refinements in the loss development model that favorably impacted the prior years' general liability and automobile claims reserves, mostly within the SB3 program, and reduced the ultimate loss estimates for those two segments and helped to reduce liabilities for the prior year. Loss development patterns used in the actuarial analysis are largely based on BRIM's experience.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

- Several factors contributed to the \$1,687 increase in total net assets for 2012 and the \$27,621 increase for 2011. Investment returns in 2012 helped to bolster cash balances and increase the total amount invested, increasing total assets by \$11,763. This was mostly offset by an increase in estimated claims expense liability that grew by a combined \$10,759 for 2012, based on the current year-end actuarial study. Higher investment returns similarly contributed to the \$17,717 increase in total assets for 2011. However, the previous year-end's actuarial study reflected favorable claims trend development, primarily within the SB3 program, with most of the improvement reflected in a decrease in the provisions for prior years' outstanding estimated claims reserves for 2011. The total reduction in outstanding claims reserves of \$9,201 for 2011 had a favorable impact on estimated claims expense, reducing total liabilities for the prior year. Also included within the net asset category are restricted assets totaling \$45,599 in 2012, \$43,061 in 2011, and \$38,420 in 2010 for programs that provide mine subsidence coverage to the general public per the West Virginia State Code and that provide medical malpractice tail coverage for the House Bill 601 Program.
- Total net operating revenues shrank by \$803 in 2012 and by \$5,287 in 2011. The current estimates of what is now needed to pay for several earlier prior years' outstanding claims reserves allowed for significant reductions in the premiums billed for both of these fiscal years. As a result, most of the reserve improvements for these earlier years were passed on to insured parties in the form of lower premiums.
- Total operating expenses increased to \$57,288 in 2012 from \$37,624 in 2011. Claims and claims adjustment expense increased year-over-year by \$19,798. A decrease of \$20,130 in the provisions for prior years' outstanding estimated claims reserves in 2011 lowered operating expense levels for 2011. The year over year difference also includes an increase of the provision for current-year reserves in 2012 that was \$4,136 higher than the previous years' provision for current-year reserves.
- Nonoperating revenues decreased by \$5,467 in 2012 and \$6,331 in 2011. The diminishing investment returns reflect the lower interest rate environment that has evolved over the last several years, reducing overall yields on fixed income securities that make up most of the investments being held.
- Total revenues and total expenses from 2012 to 2011 and from 2011 to 2010 have fluctuated due to the year-over-year reductions in premium rates, the changes in the retained loss estimates and the variations in annual investment market returns. See the analysis of these individual components, as previously discussed, for additional information.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

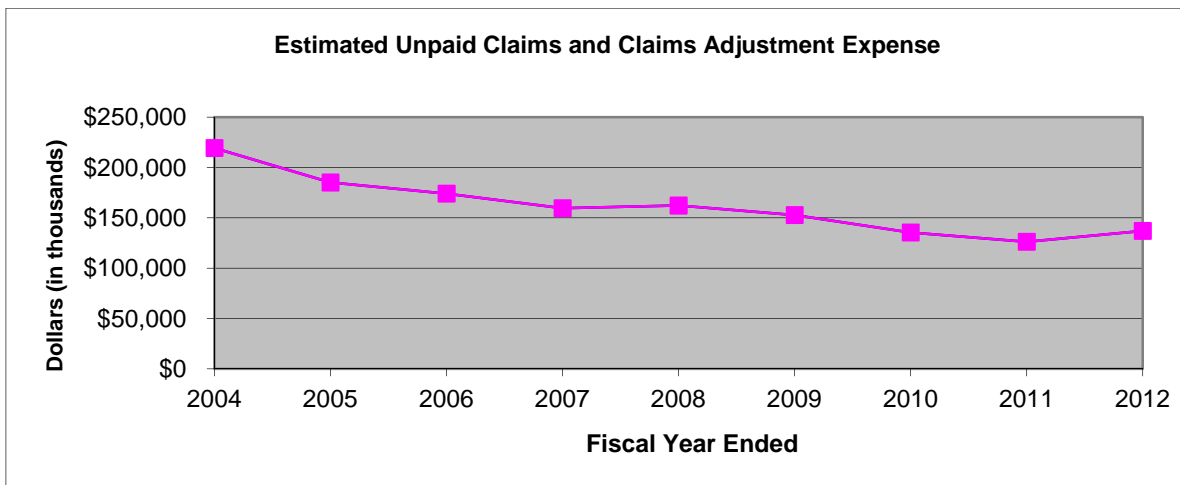
OVERALL ANALYSIS

(Dollars in Thousands)

The overall condition of BRIM marginally improved from the prior year. Although current-year reserves increased, a small reduction in the estimated claims reserves for prior years, together with investment earnings and aggressive risk management allowed BRIM to further increase the net assets for this year, reflecting a total of \$221,515 at June 30, 2012. BRIM continues to adhere to a comprehensive financial stability and rating plan.

Unpaid Claims Liability

BRIM's most significant number on its statements of net assets is the liability for estimated unpaid claims and claims adjustment expense. This liability consists of two parts: claims that BRIM is aware of which have been reserved and incurred but not reported (IBNR) claims, which are projected by an independent actuary. From fiscal year 2011 to 2012, the liability for unpaid claims increased from \$126,227 to \$136,986. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2004 through 2012.



House Bills 601 and 2122

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

West Virginia Board of Risk and Insurance Management

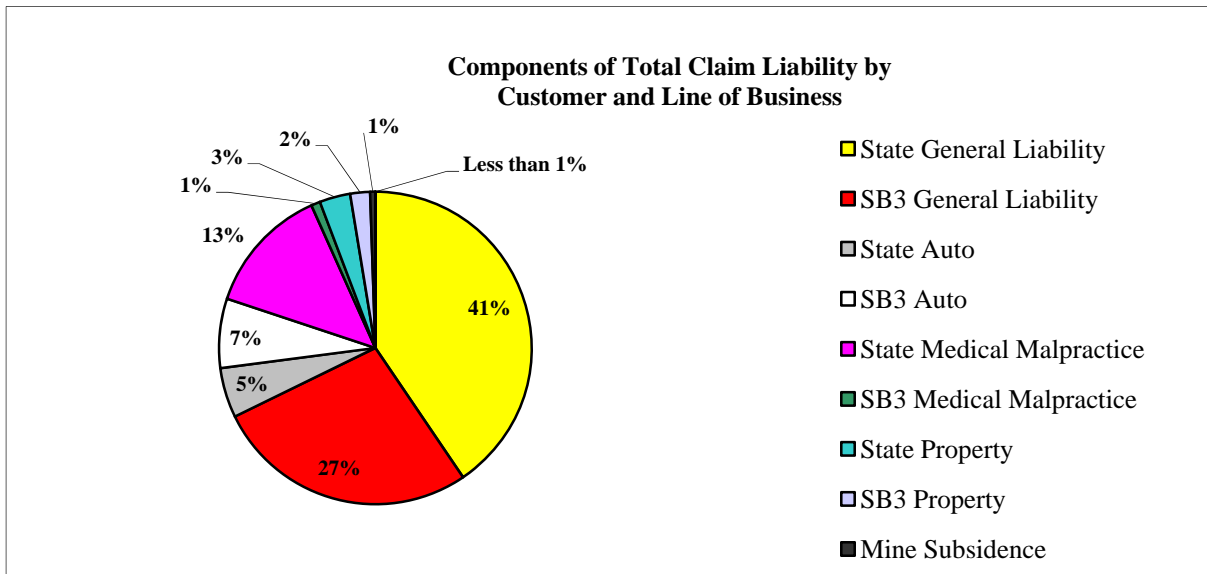
Management's Discussion and Analysis (continued)

During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for the physicians insured under House Bill 601 to novate into a physician's mutual. On July 1, 2004, these physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were non-renewed by BRIM prior to June 30, 2004. The program is in "runoff" mode, and BRIM continues to service and pay claims that were made during the effective period or claims relating to tail coverage purchased. Tail coverage was offered to all terminated insurers in House Bill 601. This tail coverage covers the insured on any IBNR claims during the policy period. There currently are no active or open claims.

Results by Line of Business for BRIM

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

The following chart shows the breakdown by customer and line of business of the total estimated claim liability number, which is \$136,986. As demonstrated in the chart, the largest claim volume for BRIM relates to general liability for the State agencies and SB3 programs and the State agencies' medical malpractice coverage.



There is no long-term debt activity.

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

ECONOMIC FACTORS AND NEXT YEAR'S RATES

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

BRIM has had no deficiency in net assets for the programs it oversees for several years. Previously, however, a deficiency arose, primarily due to adverse claim development in the general liability and medical malpractice lines of business for the State and SB3. The following paragraphs describe the essential plans that BRIM continues to follow to ensure that all lines of business remain fiscally solvent and that the individual programs are financially sound.

Risk Management

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

Investment Returns

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

Premium Determination Process

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

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

REQUESTS FOR INFORMATION

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

West Virginia Board of Risk and Insurance Management

Statements of Net Assets

	June 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,718	\$ 13,830
Advance deposits with insurance company and trustee	200,949	189,211
Receivables:		
Premiums due from State agencies	-	7
Premiums due from other entities	-	371
Other	447	410
Less allowance for doubtful accounts	-	(387)
Net receivables	<u>447</u>	<u>401</u>
Prepaid insurance	22	38
Restricted cash and cash equivalents	10,850	9,401
Restricted receivables:		
Premiums due from other entities	549	533
Total current assets	<u>227,535</u>	<u>213,414</u>
Noncurrent assets:		
Equity position in internal investment pools	102,175	105,500
Restricted investments	35,989	35,022
Total noncurrent assets	<u>138,164</u>	<u>140,522</u>
Total assets	<u>365,699</u>	<u>353,936</u>
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	47,719	43,259
Unearned premiums	5,494	6,095
Agent commissions payable	1,026	1,097
Accrued expenses and other liabilities	611	614
Total current liabilities	<u>54,850</u>	<u>51,065</u>
Estimated unpaid claims and claims adjustment expense, net of current portion	89,267	82,968
Compensated absences	67	75
Total noncurrent liabilities	<u>89,334</u>	<u>83,043</u>
Total liabilities	<u>144,184</u>	<u>134,108</u>
Net assets:		
Restricted by State code for House Bill 601 Program and mine subsidence coverage	45,599	43,061
Unrestricted	175,916	176,767
Net assets	<u>\$ 221,515</u>	<u>\$ 219,828</u>

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Assets

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

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

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

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

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

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements

June 30, 2012
(Dollars in Thousands)

1. General

The West Virginia Board of Risk and Insurance Management (BRIM) was established in 1957 to provide for the development of the State of West Virginia's (the State and primary government) property and liability self-insurance program. Approximately 161 State agencies participate in the program. Beginning in 1980, county boards of education were authorized to participate in the liability portion of this program, with 55 county boards currently participating in the program. In fiscal year 1987, Senate Bill 3 (SB3) was enacted, allowing local governmental entities and nonprofit organizations to participate in the entire program. There are approximately 900 such entities participating in the program. In 1982, legislation was also enacted requiring BRIM to establish and administer a coal mine subsidence reinsurance program which makes available to the general public dwelling insurance covering damage up to a specific maximum caused by the collapse of underground coal mines.

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

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

From January 1, 1971 through June 30, 1976, the liability coverage provided by BRIM was limited to \$25 thousand per occurrence on general liability, automobile liability, and medical malpractice claims. From July 1, 1976 through June 30, 1980, the liability coverage provided by BRIM was limited to \$100 thousand per occurrence. From July 1, 1982 through June 30, 1985,

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

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 claims 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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies

Basis of Accounting

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. In its accounting and financial reporting, BRIM follows the pronouncements of the Governmental Accounting Standards Board (GASB).

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

The financial statements of BRIM are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with GAAP.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of interest-earning deposits in certain investment pools maintained by the West Virginia Board of Treasury Investments (BTI). Such funds are available to BRIM with overnight notice. Interest income from these investments is prorated to BRIM at rates specified by the BTI based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool. The book carrying value of the amounts on deposit with the BTI, which approximates estimated fair value, was \$23,994 and \$21,353 at June 30, 2012 and 2011, respectively.

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

Advance Deposits With Insurance Company and Trustee

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

Beginning in fiscal year 2006, BRIM deposited monies with the Bank of New York (BNY), as trustee, to hold as advance deposits in an escrow account for BRIM liability claims with loss dates occurring after June 30, 2005. In fiscal year 2010, BRIM transferred the remaining advance deposits being held in accounts maintained by the carrier into the existing BNY trust vehicle to fund all outstanding liability claims with loss dates before June 30, 2005. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment grade fixed income securities that are identified as "qualified assets" in the escrow agreement. The funds held in escrow, together with their earnings, will be used to fund the payment of the claims and claims adjustment expenses related to these liability claims. As escrow agent, BNY periodically transfers monies from the escrow account to the insurance company administering these claims in order to reimburse the insurance company for payments that they have issued on these claims and claims adjustment expenses on BRIM's behalf.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

salvage and subrogation receipts are deducted from the estimated liability). The length of time for which such costs must be estimated varies depending on the coverage involved. In the event a reinsurer is unable financially to satisfy an obligation, BRIM is responsible for such liability.

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

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

Receivables and Premium Income

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Unearned Premiums

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

Restricted Net Assets

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

3. Deposit and Investment Risk Disclosures

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

Cash Equivalents

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

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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:

Security Type	June 30, 2012				June 30, 2011			
	Moody's	S&P	Fair Value	Percent of Pool Assets	Moody's	S&P	Fair Value	Percent of Pool Assets
Commercial paper	P-1	A-1	\$ 853,470	30.62%	P1	A-1	\$ 1,069,576	35.43%
Corporate bonds and notes	Aa1	AA-	-	-	Aa1	AA	10,000	0.33
	Aa2	AA-	15,000	0.54	Aa2	AA	33,000	1.09
	Aa3	AA-	13,000	0.47	Aa3	AA	31,000	1.03
	Aa3	A+	8,000	0.29	Aa3	A	53,000	1.76
			36,000	1.30			127,000	4.21
U.S. agency bonds	Aaa	AA+	189,691	6.80	Aaa	AAA	170,788	5.66
U.S. Treasury notes	Aaa	AA+	330,865	11.87	Aaa	AAA	298,345	9.88
U.S. Treasury bills	Aaa	AA+	237,978	8.54	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	110,000	3.95	P1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1+	738,706	26.50	P1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,054	7.18	Aaa	AAAm	200,279	6.64
Repurchase agreements								
U.S. Treasury notes	Aaa	AAA	90,204	3.24	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	-	-	Aaa	AAA	14,800	0.49
			90,204	3.24			84,357	2.79
			\$ 2,786,968	100.00%			\$ 3,018,560	100.00%

Concentration of Credit Risk

West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2012 and 2011, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2012 and 2011, the West Virginia Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

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

The overall weighted average maturity (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides the WAM for the various asset types in the WV Money Market Pool (fair values – in thousands):

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

BRIM's amount invested in the West Virginia Money Market Pool of \$23,994 included in cash and cash equivalents, at June 30, 2012, and \$21,353 at June 30, 2011, represents approximately 1% of total investments in this pool.

Foreign Currency Risk

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Investments

Board of Risk and Insurance Management Fund

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

Investment Objectives

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

Asset Allocation

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

<u>Asset Class</u>	<u>Policy Target</u>
Domestic large cap equity	10%
International equity	<u>10</u>
Total equity	20
Domestic fixed income	45
Hedge fund	20
TIPS	10
Short-term fixed income	5

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Asset Value

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

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

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

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

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.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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, 2012 and 2011, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the large cap domestic pool of \$9,969 and \$10,287 at June 30, 2012 and 2011, represents approximately 0.5% of total investments in this pool.

Domestic Non-Large Cap Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2012 and 2011, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the non-large cap domestic pool of \$3,376 and \$3,667 at June 30, 2012 and 2011, represents approximately 0.5% of total investments in this pool.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

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

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

This table excludes securities held by the pool that are denominated in U.S. dollars. The market value of these U.S. dollar denominated securities is \$257,253 and \$233,335 at June 30, 2012 and 2011, respectively. BRIM's amount invested in the international equity pool of \$9,310 and

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

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

International Nonqualified Equity Pool

This pool holds a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2012 and 2011, was \$87,453 and \$68,082, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. BRIM's amount invested in the international nonqualified equity pool of \$4,327 and \$4,781 at June 30, 2012 and 2011, respectively, represents approximately 5.0% and 7.0% of total investments in this pool.

Total Return Fixed Income Pool

Credit Risk

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

Security Type	June 30, 2012				June 30, 2011			
	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Baa2	BBB	\$ 754,176	33.7%	Baa2	BBB	\$ 699,706	29.9%
U.S. Treasury bonds and notes	Aaa	AA+	309,610	13.9	Aaa	AAA	367,385	15.7
Corporate asset-backed securities	Aa2	AA-	38,005	1.7	Aa3	AA	32,194	1.4
Corporate collateralized mortgage obligations	B	B	21,589	1.0	B1	BB	31,137	1.3
Corporate preferred securities	Ba2	BB	8,572	0.4	NR	BB+	5,778	0.2
Agency mortgage-backed securities	Aaa	AA+	340,717	15.3	Aaa	AAA	443,640	19.0
Agency collateralized mortgage obligations	Aaa	AA+	32,536	1.5	Aaa	AAA	37,142	1.6
Municipal bonds	A1	A	93,246	4.2	A1	A	81,354	3.5
Regulated investment companies	Aaa	AAA	184,079	8.2	Aaa	AAA	227,854	9.7
Agency discount notes			–	–	P-1	A-1+	3,403	0.1
Foreign government bonds	Baa1	A-	6,293	0.3			–	–
Total rated investments			<u>\$ 1,788,823</u>	80.2%			<u>\$ 1,929,593</u>	82.4%

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

At June 30, 2012, unrated securities include commingled investment pools of \$441,868 and option contract purchased valued at \$728. These unrated securities represent 19.8% of the fair value of the pool's investments. At June 30, 2011, unrated securities include commingled investment pools of \$410,007 and option contract purchased valued at \$1,891. These unrated securities represent 17.6% of the fair value of the pool's investments.

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2012 and 2011, the fixed income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2012 and 2011, the Total Return Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's collateral reinvestment fund.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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 (fair value – in thousands):

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

The Total Return Fixed Income pool invests in commercial and residential mortgage-backed, asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2012 and 2011, the Total Return Fixed Income pool held \$432,847 and \$544,113, respectively, of these securities. This represents approximately 20% and 23% of the value of the fixed income pools.

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

Of the notes, bonds, asset-backed securities, mortgage-backed securities, collateralized mortgage obligations and money market held by the Total Return Fixed Income pool, only the foreign government bond denominated in Mexican Peso is exposed to foreign currency risk. The market value of this bond is \$6,293, which represents less than 1% of the value of the pool's securities. The pool does have foreign exchange forward contracts. Additionally, the pool has indirect exposure to foreign currency risk through its ownership interest in certain of the commingled investment pools. Approximately \$183,355, or 31%, at June 30, 2012, and \$124,230, or 30%, at June 30, 2011, of the commingled investment pools hold substantially all of their investments in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2012 and 2011, the WVIMB was in compliance with this limitation.

Core Fixed Income Pool

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

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Concentration of Credit Risk

West Virginia statutes prohibit the Total Return Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2012 and 2011, the Core Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2012 and 2011, the Core Fixed Income pool held no securities that were subject to custodial credit risk. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

Interest Rate Risk

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

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

The Core Fixed Income pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2012 and 2011, the Core Fixed Income pool held \$617,639 and \$624,680, respectively, of these securities. This represents approximately 51% and 52% of the value of the fixed income pools.

BRIM's amount invested in the Core Fixed Income pool of \$21,966 and \$23,093 at June 30, 2012 and 2011, respectively, represents approximately 1.8% and 1.9% of total investments in this pool.

Foreign Currency Risk

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

Hedge Fund

The Hedge Fund holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. The pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. At June 30, 2012 and 2011, approximately \$428,621 and \$457,406 or 41% and 46%, respectively, of the market value of the funds were held in foreign currencies. BRIM's amount invested in the Hedge Fund of \$27,434 and \$25,653 at June 30, 2012 and 2011, represents approximately 2.2% and 2.4% of total investments in this pool.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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:

Security Type	June 30, 2012				June 30, 2011			
	Moody’s	S&P	Fair Value	Percent of Assets	Moody’s	S&P	Fair Value	Percent of Assets
U.S. Treasury issues	Aaa	AA+	\$ 738,767	99.9%	Aaa	AAA	\$ 891,182	100.0%
Money market funds	Aaa	AAA	406	0.1	Aaa	AAA	259	0.0
Total rated investments			<u>\$ 739,173</u>	<u>100.0%</u>			<u>\$ 891,441</u>	<u>100.0%</u>

Concentration of Credit Risk

West Virginia statutes prohibit the TIPS pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2012 and 2011, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2012 and 2011, the 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.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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 (fair value – in thousands):

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

BRIM’s amount invested in the TIPS pool of \$14,151 and \$14,280 at June 30, 2012 and 2011, respectively, represents approximately 1.9% and 1.6% of total investments in this pool.

Foreign Currency Risk

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

Advanced Deposits

Insurance Company and Trustee

Beginning in fiscal year 2006, BRIM deposited monies with BNY, as trustee, to hold as advance deposits in an escrow account for BRIM liability claims. The monies held in escrow are invested in specific money market funds and short-term guaranteed or investment grade fixed income securities that are identified as “qualified assets” in the escrow agreement.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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:

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

Concentration of Credit Risk

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

Custodial Credit Risk

At June 30, 2012 and 2011, advanced deposits include no securities that were subject to custodial credit risk.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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 (fair values – in thousands):

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

Foreign Currency Risk

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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:

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

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2012 and 2011 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net assets of approximately \$12,052 and \$11,626 for fiscal years 2012 and 2011, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(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 2012, 12.5% for 2011, and 10.5% for 2010. 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:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
BRIM contributions (14.5% – 2012, 12.5% – 2011, and 10.5% – 2010)	\$ 145	\$ 126	\$ 104
Employee contributions (4.5%)	45	46	43
Total contributions	<u>\$ 190</u>	<u>\$ 172</u>	<u>\$ 147</u>

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.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

Other Postemployment Benefits

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

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

Legislation requires the RHBT to determine through an actuarial study, the Annual Required Contribution (ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC is allocated to respective cost-sharing employers including BRIM who are required by law to fund at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. BRIM records expense for its allocated ARC and a liability for the ARC that has not been paid. Based on the actuarial study completed, the annual required contribution rates were determined for the fiscal year ended June 30, 2010. BRIM's OPEB expense for fiscal years 2012 and 2011 was approximately \$220, of which approximately \$192 and \$182 remained unpaid as of June 30, 2012 and 2011, respectively. The unpaid of \$182 as of June 30, 2011, is recorded in accrued expenses and other

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

5. Employee Benefit Plans (continued)

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

6. Lease Arrangement

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

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

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

7. Transactions With Primary Government and Component Units

Premium revenues derived from billings to State entities, which are funded by special revenue funds and component units of the primary government approximated \$25,291 and \$25,239 for the years ended June 30, 2012 and 2011, respectively.

BRIM is required by Senate Bill 1002 to remit amounts equal to the gross premium tax attributable to premiums collected by BRIM. These amounts are to be placed in a separate account known as "the Premium Tax Savings Fund" (the Fund) maintained by the State Treasurer. Amounts deposited by BRIM into the Fund approximated \$2,034 and \$1,995 for the years ended June 30, 2012 and 2011, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Reinsurance

BRIM has entered into two reinsurance agreements for excess coverage with unrelated insurance companies wherein the company assumes the liability over BRIM's limit for a ceded premium. BRIM obtains an excess policy from the commercial market which gives boards of education a liability limit of up to \$5 million in excess of BRIM's \$1 million self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM's \$1 million self-insured limit. These reinsurance agreements have been accounted for as a transfer of risk in the accompanying financial statements. However, BRIM is not relieved of its primary obligation to the insureds in the reinsurance transaction. BRIM did not have any reinsurance recoveries at June 30, 2012 or 2011.

9. Risk Management

BRIM is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; medical liabilities; and natural disasters.

Health insurance coverage for BRIM's employees is obtained through its participation in health insurance coverage offered by the West Virginia Public Employees Insurance Agency (PEIA). PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State and various related State and non-State agencies. BRIM had coverage through December 31, 2005, for job-related injuries through its participation in the West Virginia Workers' Compensation Fund, a public entity risk pool. Effective January 1, 2006, coverage was moved to Brickstreet Mutual Insurance Company as required by Senate Bill 1004. Effective October 1, 2011, coverage was moved to Zurich Insurance Company. Furthermore, BRIM is a participant in the self-insured public entity risk pool it administers. Coverage is in the amount of \$1 million per occurrence for general liability and property damage.

There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

Required Supplementary Information

West Virginia Board of Risk and Insurance Management

Ten-Year Claims Development Information (Unaudited)

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

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

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

West Virginia Board of Risk and Insurance Management

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

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

	Fiscal and Policy Year Ended June 30									
	2012					2011				
	Liability	Property	Mine Subsidence	House Bill 601	Total	Liability	Property	Mine Subsidence	House Bill 601	Total
	<i>(In Thousands)</i>									
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	\$ 122,499	\$ 2,864	\$ 864	\$ -	\$ 126,227	\$ 130,808	\$ 3,660	\$ 924	\$ 36	\$ 135,428
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	48,654	8,571	639	-	57,864	48,954	4,173	601	-	53,728
(Decrease) increase in provision for insured events of prior fiscal years	(123)	(4,193)	(159)	7	(4,468)	(19,616)	(438)	(40)	(36)	(20,130)
Total incurred claims and claims adjustment expense	48,531	4,378	480	7	53,396	29,338	3,735	561	(36)	33,598
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(7,854)	(2,117)	(185)	-	(10,156)	(8,496)	(2,164)	(97)	-	(10,757)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	(34,104)	2,053	(423)	(7)	(32,481)	(29,151)	(2,367)	(524)	-	(32,042)
Total claims and claims adjustment expense payments	(41,958)	(65)	(607)	(7)	(42,637)	(37,647)	(4,531)	(621)	-	(42,799)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	\$ 129,072	\$ 7,177	\$ 737	\$ -	\$ 136,986	\$ 122,499	\$ 2,864	\$ 864	\$ -	\$ 126,227



Statistical Section



Dresden Plate – Located on Route 122, Greenville. This piece is based on the quilt square sewn by Doris McCurdy. Block was painted by Peterstown's Energy Express mentors.



Statistical Section Narrative

Financial Trends – This schedule contains trend information to help the reader understand how BRIM’s financial performance and well-being have changed over time.

Schedule 1 – Comparative Statement of Net Assets and Changes in Net Asset
(Deficiency)

Revenue Capacity Information – These schedules contain trend information to help the reader understand BRIM’s capacity to raise revenue and the sources of those revenues.

Schedule 2 – Premiums by Line of Business for the Past Ten Years

Schedule 3 – Top 10 State Agency Premiums and Top 20 Senate Bill 3
Premiums for Fiscal Year 2012 and Fiscal Year 2003

Schedule 4 – Investment Income and Premium Revenue

Demographic and Economic Information – These schedules offer indicators to help the reader understand the environment within which BRIM’s financial activities take place.

Schedule 5 – Principal Employers Current Year and Nine Years Ago

Schedule 6 – Demographic and Economic Indicators Calendar Years 2002
through 2011

Operating Information – These schedules assist the reader in evaluating the size, efficiency, and effectiveness of BRIM.

Schedule 7 – Full-Time Equivalent Employees Fiscal Years 2003 through 2012

Schedule 8 – Claims Dollars Incurred by Customer Type for Fiscal Years 2003 through 2012

Schedule 9 – Losses Incurred by Coverage Fiscal Years 2003 through 2012

Schedule 10 – Industry Averages Compared to BRIM

Schedule 11 – Projected Ultimate Retained Losses for State Agencies and Senate Bill 3

Schedule 12 – Listing of Coverages in Effect for Fiscal Year 2012

SCHEDULE 1

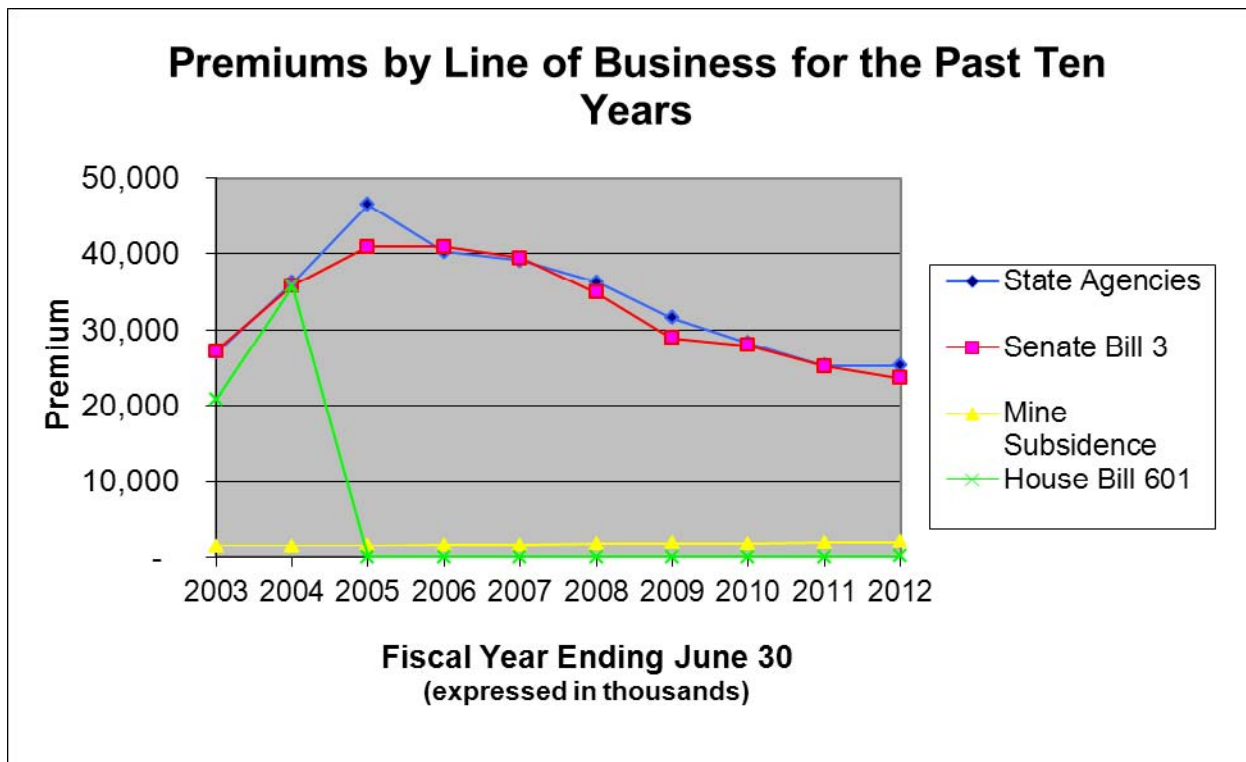
**Comparative Statement of Net Assets and Changes in Net Assets (Deficiency)
Last Ten Fiscal Years
(Expressed in Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues					
Premiums	\$ 51,046	\$ 52,538	\$ 58,007	\$ 62,427	\$ 72,986
Less Excess Coverage/Reinsurance Premiums	(5,386)	(6,075)	(6,257)	(5,944)	(6,394)
Net Operating Revenues	45,660	46,463	51,750	56,483	66,592
Operating Expenses					
Claims and Claims Adjustment Expense	53,396	33,598	31,668	36,604	42,982
General and Administrative	3,892	4,026	3,946	3,894	4,247
Total Operating Expenses	57,288	37,624	35,614	40,498	47,229
Operating Income (loss)	(11,628)	8,839	16,136	15,985	19,363
Nonoperating Revenues (Expenses)					
Interest Income	13,315	18,782	25,081	7,312	10,512
Financing Income	--	--	32	31	30
On behalf contributions	--	--	--	--	30
Appropriations from State of West Virginia	--	--	--	--	--
Distribution to Physicians' Mutual	--	--	--	--	--
Total Nonoperating Revenue	13,315	18,782	25,113	7,343	10,572
Change in Net Assets (Deficiency)	1,687	27,621	41,249	23,328	29,935
<u>Net Assets (Deficiency) at Year-End</u>					
Restricted	45,599	43,061	38,420	33,924	33,634
Unrestricted	175,916	176,767	153,787	117,034	93,996
Total Net Assets (Deficiency)	\$ 221,515	\$ 219,828	\$ 192,207	\$ 150,958	\$ 127,630

Source: Compiled from BRIM's internal accounting records

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 80,248	\$ 82,824	\$ 89,030	\$ 109,268	\$ 76,488
(6,151)	(4,145)	(3,912)	(3,801)	(3,126)
<u>74,097</u>	<u>78,679</u>	<u>85,118</u>	<u>105,467</u>	<u>73,362</u>
35,136	37,076	56,675	86,122	77,231
4,305	4,180	4,294	10,536	5,360
<u>39,441</u>	<u>41,256</u>	<u>60,969</u>	<u>96,658</u>	<u>82,591</u>
34,656	37,423	24,149	8,809	(9,229)
18,022	6,866	6,306	1,011	4,962
25	28	40	98	45
--	--	--	--	--
--	--	2,000	1,942	2,910
--	--	(4,582)	--	--
<u>18,047</u>	<u>6,894</u>	<u>3,764</u>	<u>3,051</u>	<u>7,917</u>
<u>52,703</u>	<u>44,317</u>	<u>27,913</u>	<u>11,860</u>	<u>(1,312)</u>
31,117	26,277	20,530	21,939	16,829
66,430	18,567	(20,003)	(49,325)	(56,075)
<u>\$ 97,547</u>	<u>\$ 44,844</u>	<u>\$ 527</u>	<u>\$ (27,386)</u>	<u>\$ (39,246)</u>

SCHEDULE 2



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
2003	\$ 26,915	\$ 27,198	\$ 1,528	\$ 20,847
2004	\$ 36,203	\$ 35,793	\$ 1,551	\$ 35,721
2005	\$ 46,465	\$ 40,952	\$ 1,595	\$ 18
2006	\$ 40,252	\$ 40,920	\$ 1,652	-
2007	\$ 39,091	\$ 39,481	\$ 1,676	-
2008	\$ 36,259	\$ 34,875	\$ 1,852	-
2009	\$ 31,596	\$ 28,902	\$ 1,929	-
2010	\$ 28,257	\$ 27,889	\$ 1,861	-
2011	\$ 25,239	\$ 25,233	\$ 2,032	\$ 34
2012	\$ 25,290	\$ 23,603	\$ 2,090	\$ 63

The chart above shows premiums by line of business for the past ten fiscal years, expressed in thousands of dollars. This chart illustrates the recent decreases in premium revenue collected from State Agencies and Senate Bill 3 customers. This is due to offsets that have been given in premiums billed based on prior year reserve declines that have been used to reduce annual premiums billed since 2009.

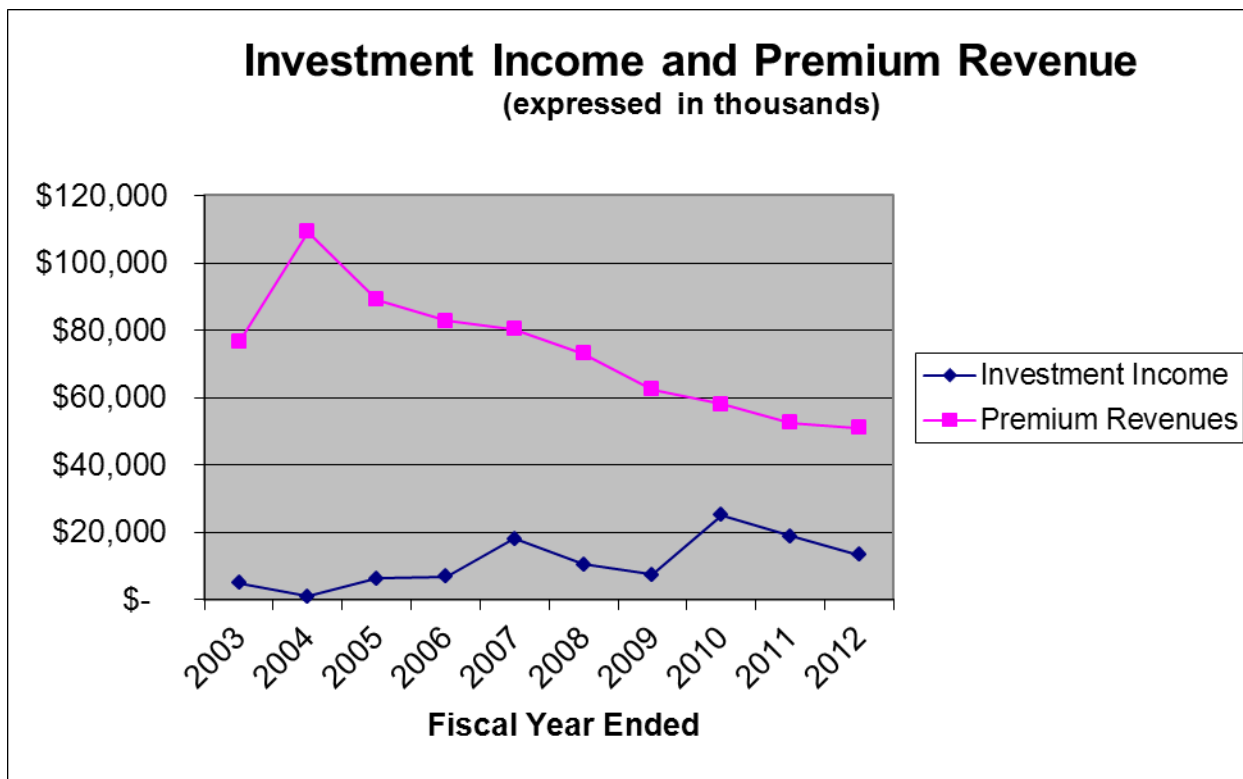
Source: BRIM's internal financial statements.

SCHEDULE 3

<u>Top 10 State Agency Premiums for Fiscal Year 2012</u>		<u>Top 10 State Agency Premiums for Fiscal Year 2003</u>	
1 West Virginia State Police	\$ 4,964,942	West Virginia University	\$ 6,641,866
2 Division of Highways	4,182,944	Division of Highways	4,365,767
3 West Virginia University	3,958,493	Public Safety Division	3,468,369
4 Department of Health & Human Resources	2,978,812	Marshall University	2,116,586
5 Marshall University	1,450,649	Department of Health & Human Resources	1,762,343
6 Corrections Division	805,078	Public Health Division	1,200,428
7 Regional Jail and Corrections Facility Authority	455,334	Department of Natural Resources	1,008,286
8 General Services	387,002	Corrections Division	741,141
9 West Virginia Parkways Authority	383,921	WV Parkways and Economic Development Authority	375,134
10 West Virginia State Parks	363,094	Division of Environmental Protection	341,511
Total Top Ten	<u>\$ 19,930,269</u>	Total Top Ten	<u>\$ 22,021,431</u>
Total State Premium Billing for 2012	\$ 25,992,641	Total State Premium Billing for 2003	\$ 27,130,323
% of top 10 in relation to all state agency billings	76.68%	% of top 10 in relation to all state agency billings	81.17%
<u>Top 20 SB 3 Premiums for Fiscal Year 2012</u>		<u>Top 20 SB 3 Premiums for Fiscal Year 2003</u>	
1 Kanawha County Board of Education	\$ 1,538,088	Kanawha County Board of Education	\$ 983,099
2 Raleigh County Board of Education	736,094	Wood County Board of Education	435,132
3 Berkeley County Board of Education	576,609	Berkeley County Board of Education	411,099
4 Harrison County Board of Education	482,881	Harrison County Board of Education	391,736
5 West Virginia University Medical Corporation	467,794	Mingo County Board of Education	376,962
6 Putnam County Board of Education	432,648	Logan County Commission	356,450
7 Mercer County Board of Education	426,957	Mercer County Board of Education	350,593
8 Wayne County Board of Education	413,669	Raleigh County Board of Education	349,540
9 Cabell County Board of Education	349,942	City of Beckley	347,818
10 Logan County Board of Education	349,018	Cabell County Board of Education	347,274
11 Marion County Board of Education	347,129	Monongalia County Board of Education	324,297
12 Monongalia County Board of Education	340,416	Marion County Board of Education	323,563
13 Wood County Board of Education	329,960	Fayette County Board of Education	308,939
14 City of St. Albans	316,114	City of St. Albans	306,773
15 Jefferson County Board of Education	308,112	Wayne County Board of Education	299,842
16 Fayette County Board of Education	295,266	Putnam County Board of Education	273,935
17 Ohio County Board of Education	286,951	McDowell County Board of Education	253,802
18 McDowell County Board of Education	273,692	West Virginia University Medical Corporation	249,053
19 Mason County Board of Education	271,871	Monongalia County Commission	240,319
20 Mingo County Board of Education	262,018	Logan County Board of Education	234,616
Total Top Twenty	<u>\$ 8,805,229</u>	Total Top Twenty	<u>\$ 7,164,842</u>
Total SB 3 Premium Billing for 2012	\$ 24,670,477	Total SB 3 Premium Billing for 2003	\$ 26,524,921
% of top 20 in relation to total SB 3 billings	35.69%	% of top 20 in relation to total SB 3 billings	27.01%

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

SCHEDULE 4



Fiscal Year	Investment Income	Premium Revenue
2003	\$ 4,962	\$ 76,488
2004	\$ 1,011	\$ 109,268
2005	\$ 6,306	\$ 89,030
2006	\$ 6,866	\$ 82,824
2007	\$ 18,022	\$ 80,248
2008	\$ 10,512	\$ 72,986
2009	\$ 7,312	\$ 62,427
2010	\$ 25,081	\$ 58,007
2011	\$ 18,782	\$ 52,538
2012	\$ 13,315	\$ 51,046

This chart illustrates BRIM’s higher investment earnings over the six most recent years as a result of BRIM’s new investment strategy, as previously discussed, being implemented during a period of lower premium revenues due to reductions being given in premiums. Amounts are expressed in thousands of dollars.

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

SCHEDULE 5

Principal Employers Current Year and Nine Years Ago

Estimated as of June 30, 2012			Estimated as of June 30, 2003		
Major West Virginia Employers	Number of Employees	% of Total	Major West Virginia Employers	Number of Employees	% of Total
Local Government	75,000-79,999	10.47%	Local Government	70,000-74,999	9.55%
State Government	40,000-44,999	5.77%	State Government	40,000-44,999	5.65%
Federal Government	20,000-24,999	3.14%	Federal Government	20,000-24,999	2.93%
Wal-Mart Associates, Inc.	10,000-13,000	1.56%	Wal-Mart Associates, Inc.	9,000-11,999	1.40%
West Virginia United Health System	7,000-9,999	1.15%	West Virginia United Health Systems	5,000-6,999	0.80%
Charleston Area Medical Center	5,000-6,999	0.82%	Charleston Area Medical Center	5,000-6,999	0.80%
Kroger	3,000-4,999	0.54%	Kroger	3,000-4,999	0.53%
Consolidation Coal Company	3,000-4,999	0.54%	Weirton Steel Corporation	3,000-4,999	0.53%
Lowes Home Centers, Inc.	1,000-2,999	0.27%	CSX Corporation	3,000-4,999	0.53%
Mylan Pharmaceuticals, Inc.	1,000-2,999	0.27%	E I Dupont De Nemours and Company	1,000-2,999	0.27%
Mentor Management, Inc.	1,000-2,999	0.27%	Verizon	1,000-2,999	0.27%
St. Mary's Hospital	1,000-2,999	0.27%	Allegheny Energy Service Corporation	1,000-2,999	0.27%
American Electric Power	1,000-2,999	0.27%	St. Mary's Hospital	1,000-2,999	0.27%
Actual Total	736,100		Actual Total	749,000	

Source: Workforce West Virginia Research, Information, and Analysis Office

SCHEDULE 6

Demographic and Economic Indicators Calendar Years 2002-2011

	2011	2010	2009	2008
Population				
West Virginia	1,855,364	1,852,994	1,819,777	1,814,873
Change	0.13%	1.83%	0.27%	0.20%
National	311,591,917	308,745,538	307,006,550	304,374,846
Change	0.92%	0.57%	0.86%	0.93%
Total Personal Income				
	62,178	59,325	58,631	57,411
Change	4.81%	1.18%	2.13%	5.24%
National	12,981,741	12,357,113	12,015,535	12,225,589
Change	5.05%	2.84%	-1.72%	2.91%
Per Capita Personal Income*				
West Virginia	33,513	31,999	32,219	31,634
Change	4.73%	-0.68%	1.85%	5.02%
National	41,663	39,945	39,138	40,166
Change	4.30%	2.06%	-2.56%	1.97%
Median Age - West Virginia				
	41.1	41.3	40.5	40.6
Educational Attainment				
9th Grade or Less	6.8%	6.1%	6.5%	6.6%
Some High School, No Diploma	11.3%	10.7%	10.7%	11.1%
High School Diploma	41.3%	41.6%	41.0%	40.9%
Some College, No Degree	17.6%	18.3%	18.5%	18.5%
Associate, Bachelor's or Graduate Degree	23.0%	23.3%	23.2%	22.9%
Resident Civilian Labor Force and Employment in West Virginia				
Civilian Labor Force (thousands)	799.9	782.3	797.9	806.0
Employed (thousands)	736.1	711.1	734.6	772.0
Unemployed (thousands)	63.8	71.2	63.4	34.0
Unemployment Rate (thousands)	8.0%	9.1%	7.9%	4.3%
Nonfarm Wage and Salary Workers Employed in West Virginia				
Goods Producing Industries				
Mining	33.6	29.9	29.6	30.7
Construction	33.0	32.6	34.1	38.4
Manufacturing-Durable Goods	30.0	29.6	30.9	35.2
Manufacturing-NonDurable Goods	19.5	19.5	19.8	21.1
Total Goods Producing Industries	116.1	111.6	114.4	125.4
Non-Goods Producing Industries				
Trade	109.9	109.2	110.0	114.4
Service	376.2	372.5	369.9	374.0
State and Local Government	128.3	128.3	126.3	123.7
Federal Government	23.5	24.3	23.6	22.9
Total Non-Goods Producing Industries	637.9	634.3	629.8	635.0
Total Nonfarm Wage and Salary Employment	754.0	745.9	744.2	760.4

Sources: Workforce West Virginia Research, Information, and Analysis Office and the Census, and the Survey of Current Business. Various population, personal income, per capita personal income and labor force figures have been amended from last year's schedule.

*Per capita personal income is calculated by dividing total personal income by population.

2007	2006	2005	2004	2003	2002
1,811,198	1,807,237	1,803,920	1,803,302	1,802,238	1,799,411
0.22%	0.18%	0.03%	0.06%	0.16%	0.05%
301,579,895	298,593,212	295,753,151	293,045,739	290,326,418	287,803,914
1.00%	0.96%	0.92%	0.97%	0.99%	1.01%
54,555	51,894	48,139	46,497	43,841	43,312
5.13%	7.80%	3.53%	6.06%	1.22%	3.36%
11,879,836	11,256,516	10,476,669	9,928,790	9,150,320	8,872,871
5.54%	7.44%	5.52%	8.51%	3.13%	1.79%
30,121	28,715	26,686	25,784	24,326	24,070
4.90%	7.60%	3.50%	6.00%	1.06%	3.32%
39,392	37,698	35,424	33,881	31,517	30,830
4.49%	6.42%	4.55%	7.50%	2.23%	0.83%
40.4	40.7	40.7	40.2	39.9	39.5
7.0%	7.1%	10.0%	10.0%	10.0%	10.0%
11.8%	11.9%	14.8%	14.8%	14.8%	14.8%
41.0%	42.7%	39.4%	39.4%	39.4%	39.4%
16.7%	16.1%	16.6%	16.6%	16.6%	16.6%
23.4%	22.2%	19.2%	19.2%	19.2%	19.2%
813.0	810.0	798.0	788.0	790.0	796.0
778.0	773.0	759.0	747.0	742.0	749.0
35.0	37.0	39.0	41.0	48.0	47.0
4.3%	4.6%	4.9%	5.3%	6.0%	5.9%
27.5	28.1	25.9	23.8	22.0	23.1
38.7	39.2	36.8	34.6	32.7	33.4
37.2	38.4	38.8	39.2	39.7	42.2
21.8	22.6	23.0	23.8	24.9	26.5
125.2	128.3	124.5	121.4	119.3	125.2
116.2	115.5	113.6	111.9	110.4	111.3
369.5	367.8	364.9	360.5	355.5	353.7
122.6	122.4	121.7	121.4	120.6	120.9
22.5	22.1	21.9	21.8	21.9	21.9
630.8	627.8	622.1	615.6	608.4	607.8
756.0	756.1	746.6	737.0	727.7	733.0

SCHEDULE 7

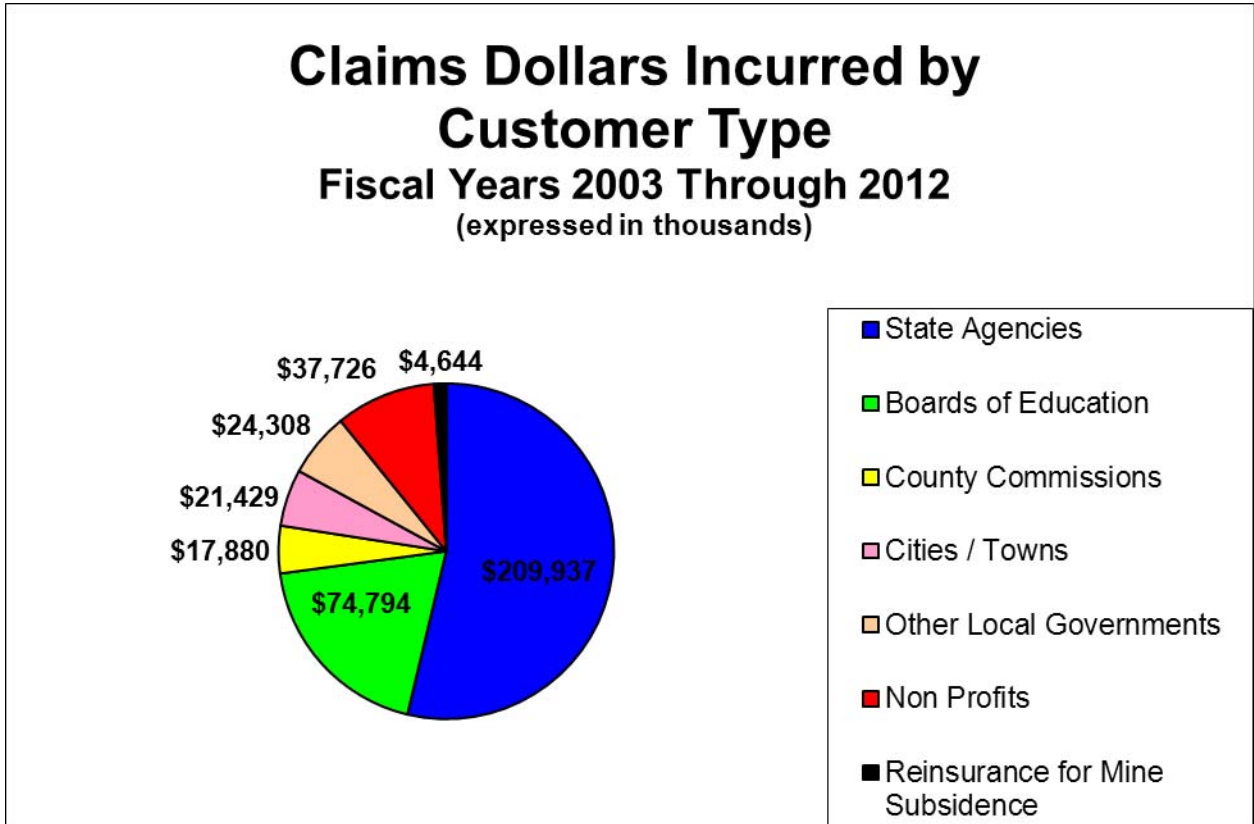
Full-time Equivalent Employees as of Fiscal Year-End*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Administration	2	2	2	2	2	2	2	3	5	3
Finance	3	3	3	3	3	3	3	3	3	3
Claims	5	5	5	5	5	5	5	6	4	5
Underwriting	5	6	6	6	5	6	6	6	6	5
Loss Control	4	6	6	4	4	6	5	4	4	2
Information Systems	2	2	2	2	2	2	2	2	1	1
Medical Professional	--	--	--	--	--	--	--	--	1	1
Total Employees	21	24	24	22	21	24	23	24	24	20

* A full time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full time equivalent employment is calculated by dividing total labor hours by 2,080.

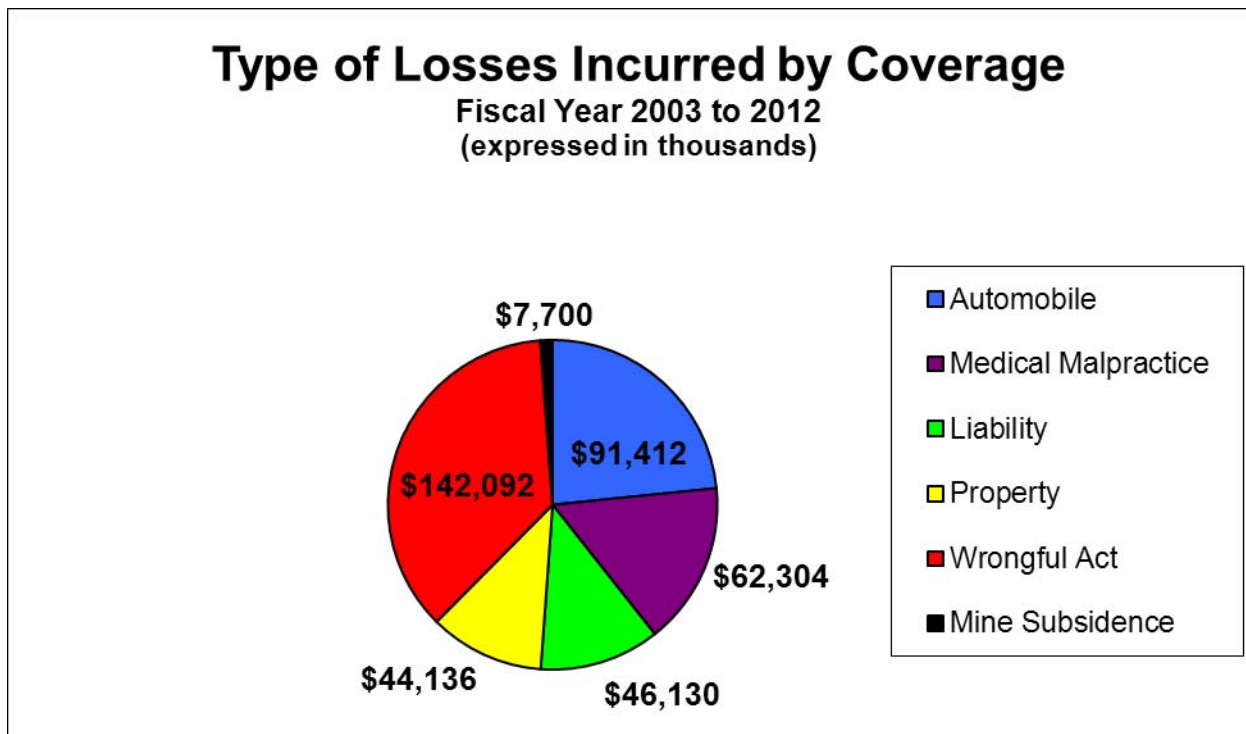
Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

SCHEDULE 8



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

SCHEDULE 9



Loss Category

Automobile refers to injuries and physical damage claims resulting from the use of automobiles.

Medical Malpractice refers to claims arising out of professional medical encounters.

Liability refers to incidents such as slips and falls, highway maintenance, alleged negligence in the oversight of property and programs.

Property refers to damage to dwellings and structures covered under the policy.

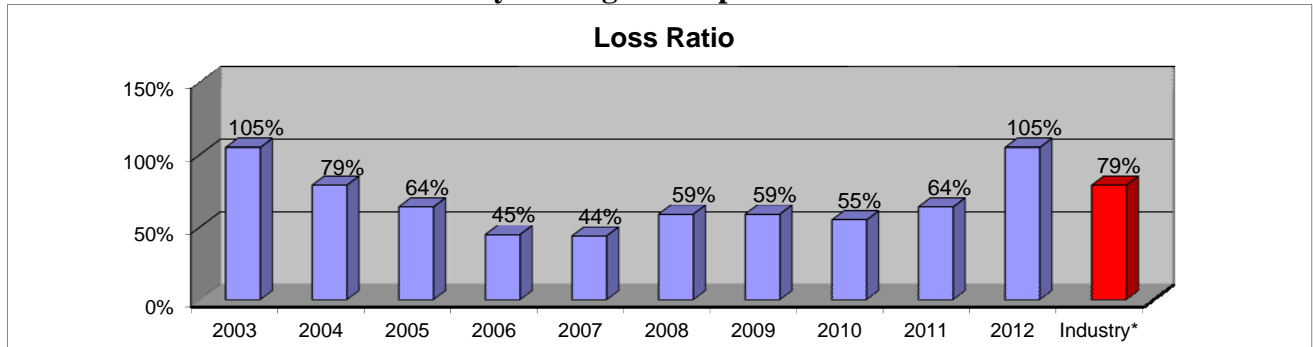
Wrongful acts generally fall in the personal injury area and refer to things such as alleged employment discrimination, defamation, and civil rights' violations.

Mine subsidence is dwelling insurance up to a specified maximum for damage caused by the collapse of underground coal mines.

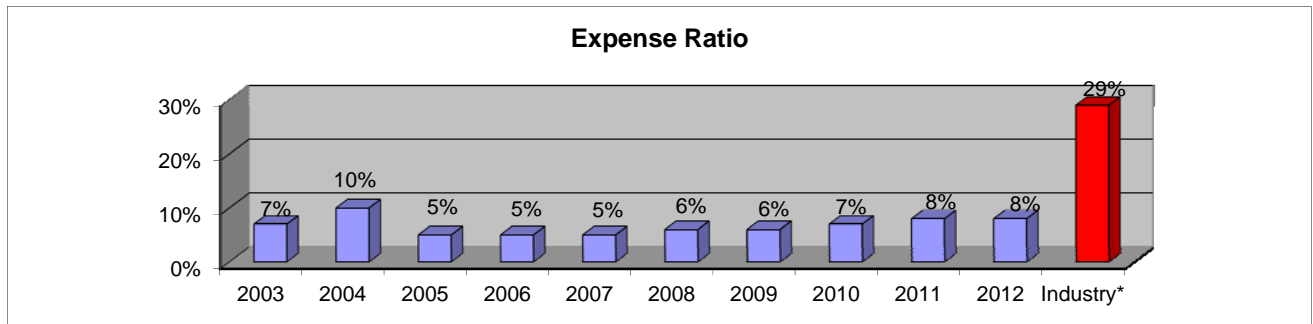
Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

SCHEDULE 10

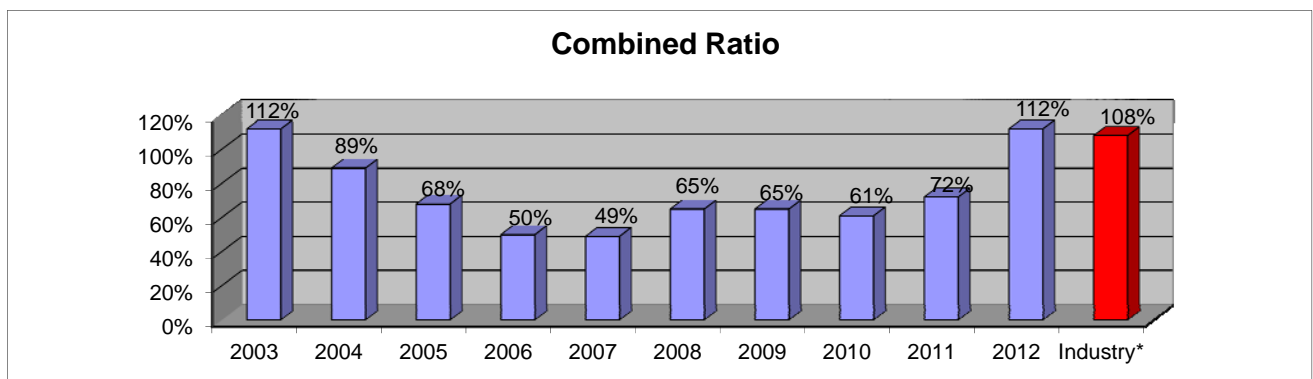
Industry Averages Compared to BRIM



The loss ratio expresses the relationship between losses and premiums in percentage terms.



The expense ratio expresses the relationship between total general and administrative expenses and premiums in percentage terms.

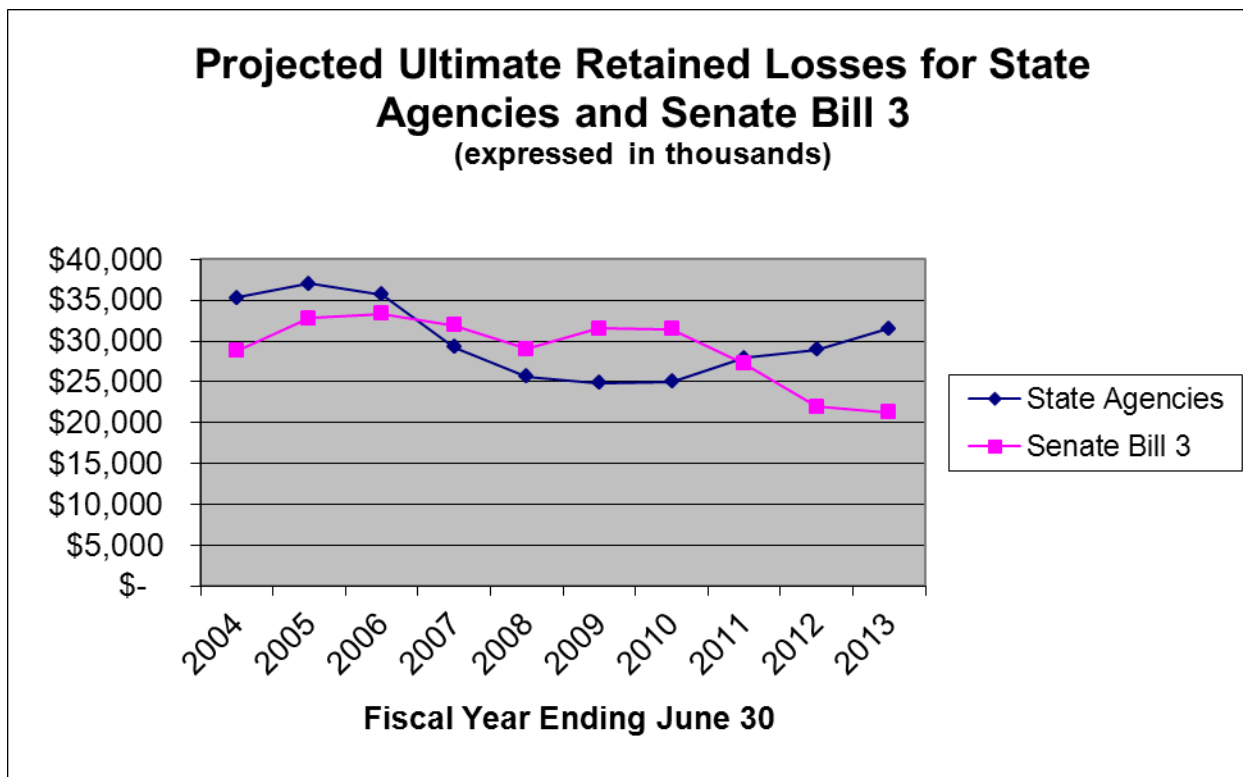


The combined ratio is used to measure underwriting performance. It is derived by adding the loss and expense ratio. A combined ratio below 100% indicates an underwriting profit and one above 100% indicates an underwriting loss.

BRIM's ratios are shown in blue and the industry ratios are shown in red.

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

SCHEDULE 11



Fiscal Year	State Agencies	Senate Bill 3
2004	\$ 35,335	\$ 28,824
2005	\$ 37,065	\$ 32,789
2006	\$ 35,689	\$ 33,369
2007	\$ 29,243	\$ 31,916
2008	\$ 25,631	\$ 29,041
2009	\$ 24,863	\$ 31,508
2010	\$ 25,011	\$ 31,468
2011	\$ 27,894	\$ 27,216
2012	\$ 28,937	\$ 21,932
2013	\$ 31,571	\$ 21,250

The projections indicate a downward trend for both State Agencies and Senate Bill 3 programs for fiscal years 2007 and 2008. The overall projections level out for fiscal years 2009 and 2010. However, the projections for fiscal years 2011, 2012 and 2013 show State Agencies increasing while Senate Bill 3 decrease further in 2011, 2012, and 2013 due to current development estimates in the actuarial model. All projections are listed at their nominal value, expressed in thousands of dollars.

Source: Taken from each of the corresponding independent actuarial reports from AON that provide the estimates for each fiscal year's projected losses as shown.

SCHEDULE 12**Listing of Coverages in Effect for Fiscal Year 2011**

<u>LIABILITY</u>	<u>LIMIT OF LIABILITY</u>
Automobile Liability Policy No.: RMCA 350-62-97 Company: National Union Fire Insurance Co.	\$ 1,000,000 per occurrence
General Liability Policy No.: RMGL 244-94-50 Company: National Union Fire Insurance Co.	\$ 1,000,000 per occurrence
Aircraft Liability Policy No.: AV003380147-09 Company: National Union Fire Insurance Co.	\$ 1,000,000 per occurrence
Excess Liability-Bd. of Education Policy No.: 48409866 Company: The Insurance Company of the State of Penn	\$ 5,000,000 per occurrence or claim
Pollution Legal Liability Select Policy Policy No. 14046842 Company: Chartis Specialty Insurance Co. (Technology Park only)	\$ 1,000,000 each incident \$ 3,000,000 aggregate
<u>PROPERTY</u>	<u>LIMIT OF LIABILITY</u>
Blanket Property Policy No.: MAF760728-11 Company: Axis Insurance Company	\$ 25,000,000 primary layer 1,000,000 deductible
Policy No.: NHD372236 Company: RSUI	\$ 175,000,000 in excess of 25,000,000
Policy No.: CICA3259 Company: Commonwealth Insurance Company of America	\$ 50,000,000 in excess of 200,000,000
Policy No.: MAF733355-11 Company: Axis	\$ 150,000,000 in excess of 250,000,000
Policy No.: MAF760729-11 Company: Axis Insurance Company	\$ 10,000,000 flood with 1,000,000 deductible
Boiler and Machinery Policy No.: 7642-68-24 Company: Chubb	\$ 5,000,000 per equipment covered excess of 1,000,000
Public Insurance Official Position Schedule Bond Bond No.: 104511294 Company: Travelers	Variable amounts as set by Statute

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

