

# State of West Virginia

## Board of Risk and Insurance Management

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

# Comprehensive Annual Finance Report

For the Fiscal Years Ended June 30, 2014 and 2013

## West Virginia State Fairs

The pictures shown throughout our report are of fairs held in West Virginia. These fairs are enjoyed by many people and are an important part of the cultural of West Virginia.

**On the Cover Bridge Day** - The New River is rich in cultural and natural history and is host to such events as Bridge Day. This event is the largest extreme sports event in the world and offers an abundance of scenic and recreational opportunities such as white water rafting. The New River, possibly the second-oldest river in the world, drops 240 feet over one 14-mile stretch as it cuts its way through a 1,000-foot-deep sandstone gorge. The famed Lower New runs through the heart of the gorge and underneath the longest steel arch bridge in the Western Hemisphere.

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### Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013



**Earl Ray Tomblin**

Governor

**Ross Taylor**

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, 2014 and 2013

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# Introductory Section

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**The State Fair of West Virginia** - An annual [state fair](#) for [West Virginia](#). It is held annually in mid-August on the State Fairgrounds in [Fairlea](#), near [Lewisburg, West Virginia](#) in the southeastern part of the state. The State Fairgrounds consists of a large open field for carnivals and exhibitions, a horse track, grandstands, and several exhibition buildings..

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

**PRINCIPAL OFFICIALS**

**Earl Ray Tomblin, Governor**

**Secretary of Department of Administration**  
Ross Taylor

**Board of Directors**

Bruce Martin, Chairperson  
Rob Anderson, Vice Chairperson  
S.A. Cunningham, CPA, 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



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

Earl Ray Tomblin  
Governor

Charles E. Jones, Jr.  
Executive Director  
[charles.e.jones@wv.gov](mailto:charles.e.jones@wv.gov)

Ross Taylor  
Cabinet Secretary

Formal Transmittal of Comprehensive Annual Financial Report (CAFR)

December 23 2014

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, 2014, 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**

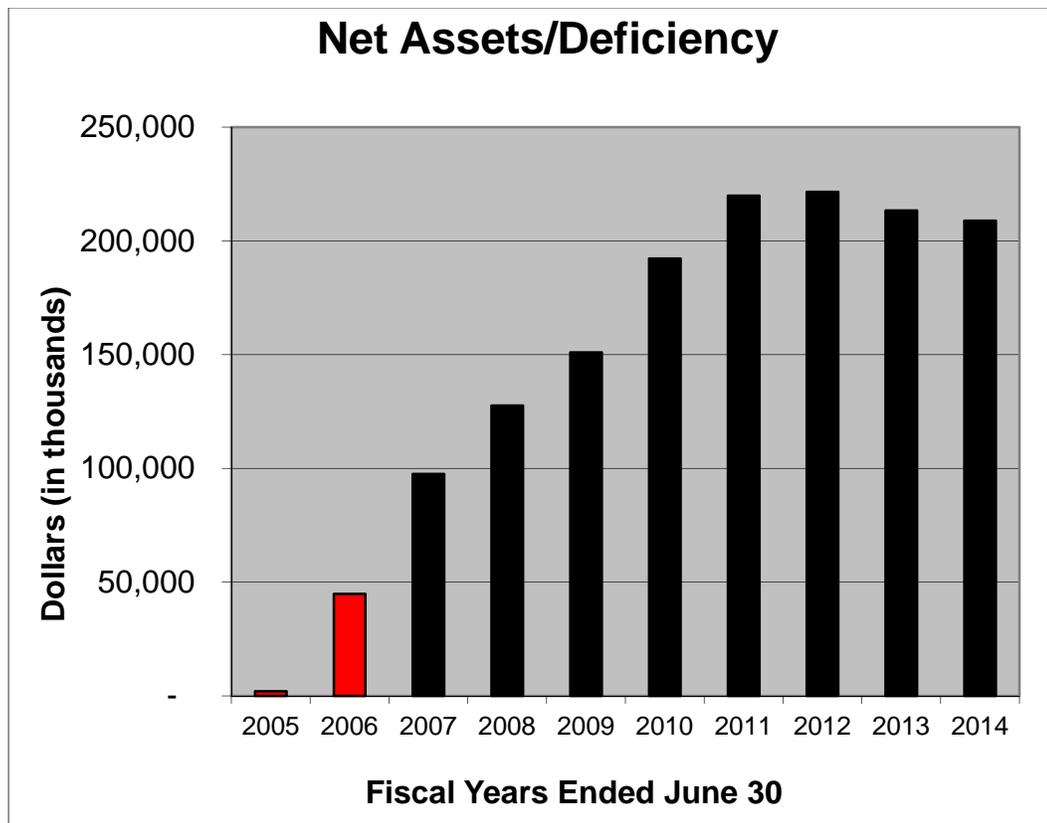
### **Net Assets**

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

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contributing factor. In fiscal year 2004, management adopted a financial stability plan to address the deficiency in net assets. In 2014 BRIM adopted a net assets reserve policy. As of June 30, 2014, BRIM has total net assets of \$208,911,000 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.

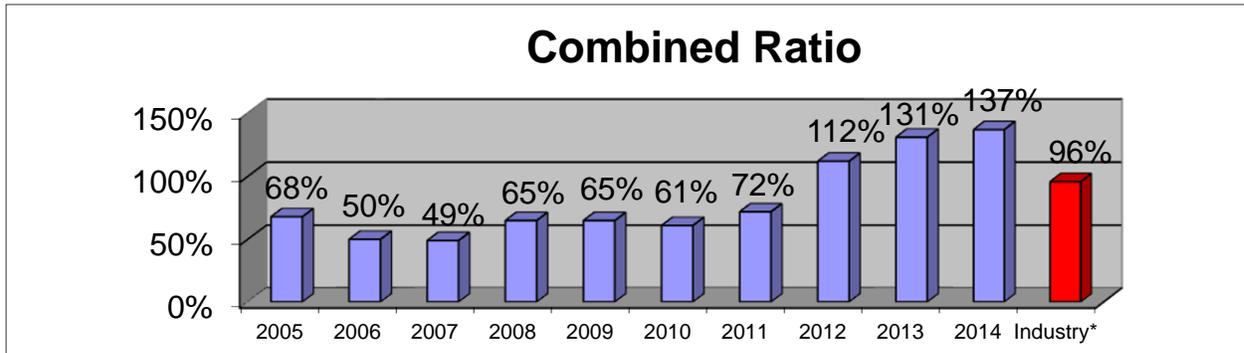
The chart below shows the net assets/deficiency for the past ten years. The years in black represent positive net assets and the years in red represent a net asset deficiency (or unfunded liability).



### 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 2014 reflects an underwriting loss and is 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 28%. 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 recent risk funding studies completed, BRIM saw an increase in claims reserves in both 2013 and 2014 when compared to overall reserve decreases seen from 2004 thru 2011. The increase in claims reserves since 2011, coupled with the reduced premiums billed for 2012; 2013 and 2014 had an unfavorable impact on BRIM's combined ratio for fiscal years 2013 and 2014. 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 Insurance Services Office

### 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.

In the last quarter of 2014 the BRIM's board approved a recommendation by the WVIMB to reallocate BRIM's WVIMB investments. The new allocation for BRIM's funds is 65% fixed income, 30% equities and 5% in cash.

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 2014.

### **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, 2014. 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, 2013. This was the nineteenth 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.

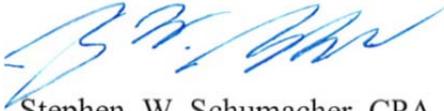
## Acknowledgements

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 of 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, 2014.

Sincerely,



Stephen. W. Schumacher, CPA  
Chief Financial Officer





Government Finance Officers Association

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, 2013**

Executive Director/CEO



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# Financial Section

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The West Virginia Black Walnut Festival, typically held on a mid-October weekend in downtown Spencer, has roots that date to 1954. Although the walnut crop isn't quite as large in Roane County these days, the festival goes on, drawing as many as 50,000 annually to a four-day event chock full of parades and walnut-themed activities, crafts and cuisine.

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## Report of Independent Auditors

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the West Virginia Board of Risk and Insurance Management (BRIM), an enterprise fund of the State of West Virginia, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM as of June 30, 2014 and 2013, and the changes in the financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Basis of Presentation**

As discussed in Note 2, the financial statements of BRIM are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2014 and 2013, and the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 17 to 24 and the supplemental schedule of Ten Year Claims Development on page 60 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion 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 audit of the basic financial statements, and accordingly, we express no opinion on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated November 7, 2014, on our consideration of BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BRIM's internal control over financial reporting and compliance.

*Ernst + Young LLP*

November 7, 2014

# West Virginia Board of Risk and Insurance Management

## Management's Discussion and Analysis

Year Ended June 30, 2014

### 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, 2014, 2013, and 2012. BRIM provides property and casualty insurance to the 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 for governmental entities. The three basic financial statements presented are as follows:

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

# West Virginia Board of Risk and Insurance Management

## Management's Discussion and Analysis (continued)

### FINANCIAL HIGHLIGHTS

*(Dollars in Thousands)*

The following tables summarize the statement of net position and changes in net position as of and for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	2012	Change 2014-2013		Change 2013-2012	
				Amount	Percent	Amount	Percent
Cash and cash equivalents	\$ 13,354	\$ 19,723	\$ 25,568	\$ (6,369)	(32.3)%	\$ (5,845)	(23.0)%
Advance deposits with carrier/trustee	206,774	201,613	200,949	5,161	2.6	664	0.3
Receivables	3,611	4,001	996	(390)	(9.7)	3,005	302.0
Prepaid insurance	–	7	22	(7)	100.0	(15)	(68.0)
Total current assets	<u>223,739</u>	<u>225,344</u>	<u>227,535</u>	<u>(1,605)</u>	<u>(0.7)</u>	<u>(2,191)</u>	<u>(1.0)</u>
Noncurrent investments	147,378	139,875	138,164	7,503	5.4	1,711	1.0
Total assets	<u>371,117</u>	<u>365,219</u>	<u>365,699</u>	<u>5,898</u>	<u>1.6</u>	<u>(480)</u>	<u>0.1</u>
Estimated claim expense	53,448	49,793	47,719	3,655	7.3	2,074	4.0
Unearned premiums	7,518	6,757	5,494	761	11.3	1,263	23.0
Agent commissions payable	939	861	1,026	78	9.1	(165)	(16.0)
Accrued expenses	469	603	611	(134)	(22.2)	(8)	(1.0)
Total current liabilities	<u>62,374</u>	<u>58,014</u>	<u>54,850</u>	<u>4,360</u>	<u>7.5</u>	<u>3,164</u>	<u>6.0</u>
Estimated claim expense	99,756	93,775	89,267	5,981	6.4	4,508	5.0
Compensated absences	76	64	67	12	18.7	(3)	(4.0)
Total noncurrent liabilities	<u>99,832</u>	<u>93,839</u>	<u>89,334</u>	<u>5,993</u>	<u>6.4</u>	<u>4,505</u>	<u>5.0</u>
Total liabilities	<u>162,206</u>	<u>151,853</u>	<u>144,184</u>	<u>10,353</u>	<u>6.8</u>	<u>7,669</u>	<u>5.0</u>
Net position:							
Restricted	53,595	49,372	45,599	4,223	8.5	3,773	8.0
Unrestricted	155,316	163,994	175,916	(8,678)	(5.6)	(11,922)	(7.0)
Net position	<u>\$ 208,911</u>	<u>\$ 213,366</u>	<u>\$ 221,515</u>	<u>\$ (4,455)</u>	<u>(2.1)</u>	<u>\$ (8,149)</u>	<u>(4.0)</u>

West Virginia Board of Risk and Insurance Management

Management's Discussion and Analysis (continued)

	2014	2013	2012	Change 2014-2013		Change 2013-2012	
				Amount	Percent	Amount	Percent
Premiums	\$ 52,128	\$ 47,134	\$ 51,046	\$ 4,994	10.6%	\$ (3,912)	(8.0)%
Less excess coverage	(6,102)	(5,825)	(5,386)	(277)	4.8	(439)	8.0
Net operating revenues	<u>46,026</u>	41,309	45,660	4,717	11.4	(4,351)	(10.0)
Claims and claims adjustment expense	61,626	54,018	53,396	7,608	14.1	622	1.0
General and administrative	3,898	3,275	3,892	623	19.0	(617)	(16.0)
Total operating expenses	<u>65,524</u>	57,293	57,288	8,231	14.4	5	-
Operating (loss) income	(19,498)	(15,984)	(11,628)	(3,514)	22.0	(4,356)	37.0
Nonoperating revenues:							
Investment income	17,043	7,835	13,315	9,208	117.5	(5,480)	(41.0)
Appropriation Transfer HB4261	(2,000)	-	-	(2,000)	(100.0)	-	-
Total nonoperating revenues, net	<u>15,043</u>	7,835	13,315	7,208	92.0	(5,480)	(41.0)
Changes in net position	(4,455)	(8,149)	1,687	3,694	45.3	(9,836)	(583.0)
Total net position – beginning	213,366	221,515	219,828	(8,149)	(3.7)	1,687	1.0
Total net position – end	<u>\$ 208,911</u>	\$ 213,366	\$ 221,515	\$ (4,455)	(2.1)	\$ (8,149)	(4.0)
Total revenues	<u>\$ 61,069</u>	\$ 49,144	\$ 58,975	\$ 11,925	24.3	\$ (9,831)	(17.0)
Total expenses	<u>\$ 65,524</u>	\$ 57,293	\$ 57,288	\$ 8,231	14.4	\$ 5	-

- Total assets decreased by \$5,898 in 2014 and increased by \$480 in 2013. The increase in 2014 is due to increased premiums and higher investment earnings. This was offset by an increase in claims paid to claimants in 2014. The decrease in 2013 is due to decreased premiums, increased claims paid to claimants, and lower investment earnings.
- Total liabilities increased \$10,353 in 2014 and \$7,669 in 2013. Estimated claims expense increased in 2014 and 2013, mostly from adverse development of prior year reserve estimates including an unanticipated increase in State general liability claims (primarily in 2010 and 2011 reserves) and a couple of large property loss occurrences that adversely impacted both the State and Senate Bill #3 (SB3) programs (2012 reserves).

## West Virginia Board of Risk and Insurance Management

### Management's Discussion and Analysis (continued)

- Several factors contributed to the \$4,455 decrease in total net position for 2014 and the \$8,149 decrease for 2013. In 2014, the increase in estimated claims expense liability grew by a combined \$9,636 for 2014, based on the current year-end actuarial study. The investment returns of 2014 did not offset the increase in claims liability which led to the decrease in net position. The 2013 decrease in net position is attributed to a reduction in premiums of \$3,912 and a reduction in investment earnings of \$5,480 due to investment market conditions. Also included within the net position category are restricted positions totaling \$53,595 in 2014, \$49,372 in 2013, and \$45,599 in 2012 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 increased by \$4,717 in 2014 and decreased by \$4,351 in 2013. The unfavorable claims trend developments in prior years' outstanding claims reserve has led BRIM to increase premium rates to policyholders for 2014 while 2013 had a decrease. In 2013 most of the reserve improvements for earlier years were passed on to insured parties in the form of lower premiums.
- Total operating expenses increased to \$65,524 in 2014 from \$57,293 in 2013. Claims and claims adjustment expense increased year over year by \$8,231.
- Nonoperating revenues, net increased by \$7,208 in 2014 and decreased \$5,480 in 2013. The increased investment returns reflect the slightly higher interest rate environment increasing overall yields on fixed income securities that make up most of the investments being held, as well as a stronger stock market, which impacted the other investment holdings. Another component of the 2014 nonoperating revenues, net was an appropriation transfer of \$2,000 to the Patient Injury Compensation Fund as authorized by House Bill 4261. This was a transfer and will not be repaid. This transfer did not occur in 2013.
- Total revenues and total expenses from 2014 to 2013 and from 2013 to 2012 have fluctuated due to the year-over-year increases and reductions in premium rates, the changes in the retained loss estimates, and the variations in annual investment market returns. See the analysis of these individual components, as previously discussed, for additional information.

#### **OVERALL ANALYSIS**

*(Dollars in Thousands)*

The overall condition of BRIM marginally deteriorated from the prior year. Reserves increased, which were offset in part by higher investment earnings. The overall increase in claims and claims adjustment expense caused the largest percentage decrease of net position for the current

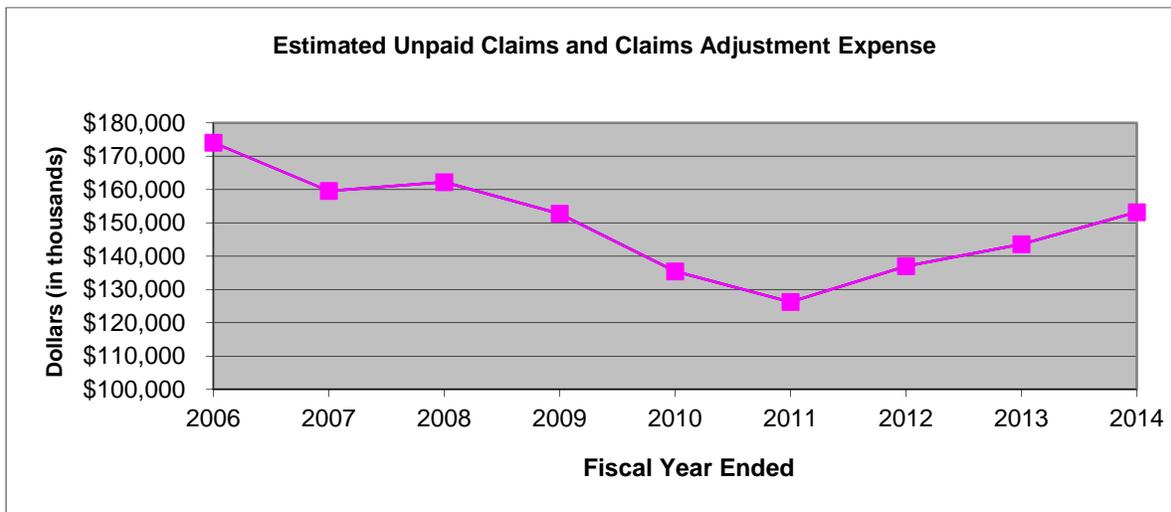
## West Virginia Board of Risk and Insurance Management

### Management's Discussion and Analysis (continued)

year, as well as the appropriation transfer of \$2,000, reflecting a net position total of \$208,911 at June 30, 2014. BRIM continues to adhere to a comprehensive financial stability and rating plan.

#### Unpaid Claims Liability

BRIM's most significant number on its statements of net position is the liability for estimated unpaid claims and claims adjustment expense. This liability consists of two parts: claims that BRIM is aware of which have been reserved and incurred but not reported (IBNR) claims, which are projected by an independent actuary. From fiscal year 2013 to 2014, the liability for unpaid claims increased from \$143,568 to \$153,204. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2006 through 2014.



#### House Bills 601 and 2122

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

During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for the physicians insured under House Bill 601 to novate into a physician's mutual. On July 1, 2004, these physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were not renewed by BRIM

# West Virginia Board of Risk and Insurance Management

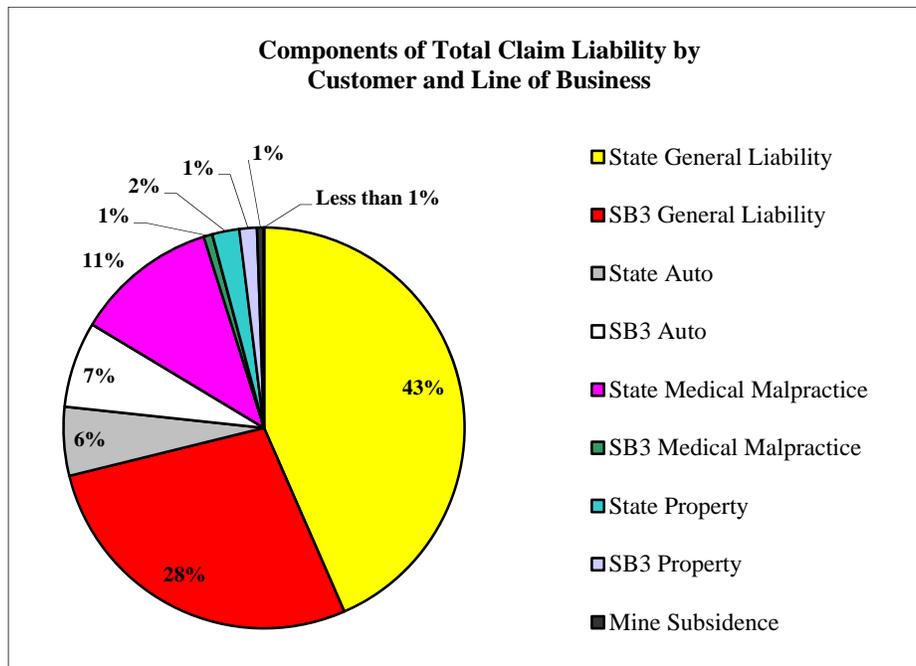
## Management's Discussion and Analysis (continued)

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 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 \$153,204. 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 Position by Line of Business**

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

##### **Risk Management**

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

##### **Investment Returns**

Investment income increased for fiscal year 2014 and decreased for 2013. The increase in 2014 was due to a slightly more favorable interest rate environment and a stronger stock market. The decrease in 2013 was 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 2014, 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 2014, 2013, and 2012 benefited from prior years' reserve releases, both 2014 and 2013 saw overall net increases in retained claims reserves. If this recent claim trend persists over the next several fiscal years and future investment returns continue to decline,

## West Virginia Board of Risk and Insurance Management

### Management's Discussion and Analysis (continued)

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 ensure that no premium deficiency develops.

#### **REQUESTS FOR INFORMATION**

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

# West Virginia Board of Risk and Insurance Management

## Statements of Net Position

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,132	\$ 12,282
Advance deposits with insurance company and trustee	206,774	201,613
Receivables	2,901	3,309
Prepaid insurance	-	7
Restricted cash and cash equivalents	7,222	7,441
Restricted receivables:		
Premiums due from other entities	710	692
Total current assets	<u>223,739</u>	<u>225,344</u>
Noncurrent assets:		
Equity position in internal investment pools	99,641	96,487
Restricted investments	47,737	43,388
Total noncurrent assets	<u>147,378</u>	<u>139,875</u>
Total assets	<u>371,117</u>	<u>365,219</u>
<b>Liabilities</b>		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	53,448	49,793
Unearned premiums	7,518	6,757
Agent commissions payable	939	861
Accrued expenses and other liabilities	469	603
Total current liabilities	<u>62,374</u>	<u>58,014</u>
Estimated unpaid claims and claims adjustment expense, net of current portion	99,756	93,775
Compensated absences	76	64
Total noncurrent liabilities	<u>99,832</u>	<u>93,839</u>
Total liabilities	<u>162,206</u>	<u>151,853</u>
Net position:		
Restricted by State code for House Bill 601 Program and mine subsidence coverage	53,595	49,372
Unrestricted	155,316	163,994
Net position	<u>\$ 208,911</u>	<u>\$ 213,366</u>

*See accompanying notes.*

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Operating revenues</b>		
Premiums	\$ 52,128	\$ 47,134
Less excess coverage/reinsurance premiums	<u>(6,102)</u>	<u>(5,825)</u>
Net operating revenues	<b>46,026</b>	41,309
 <b>Operating expenses</b>		
Claims and claims adjustment expense	<b>61,626</b>	54,018
General and administrative	<b>3,898</b>	3,275
Total operating expenses	<u><b>65,524</b></u>	<u>57,293</u>
 Operating loss	 <b>(19,498)</b>	 (15,984)
 <b>Nonoperating revenues</b>		
Investment income	<b>17,043</b>	7,835
Appropriation Transfer HB4261	<u>(2,000)</u>	<u>—</u>
Net nonoperating revenues	<u><b>15,043</b></u>	<u>7,835</u>
Changes in net position	<b>(4,455)</b>	(8,149)
 Total net position, beginning of year	 <u><b>213,366</b></u>	 221,515
Total net position, end of year	<u><b>\$ 208,911</b></u>	<u>\$ 213,366</u>

*See accompanying notes.*

# West Virginia Board of Risk and Insurance Management

## Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Receipts from customers	\$ 47,200	\$ 39,623
Payments to employees	(1,391)	(1,308)
Payments to suppliers	(2,567)	(2,183)
Payments to claimants	(51,990)	(47,435)
Deposits to advance deposit with insurance company and trustee	(59,407)	(52,247)
Withdrawals from advance deposit with insurance company and trustee	54,245	51,581
Net cash used in operating activities	(13,910)	(11,969)
<b>Noncapital financing activities</b>		
Appropriation Transfer HB4261	(2,000)	-
	(2,000)	-
<b>Investing activities</b>		
Purchase of investments	(30,636)	(25,357)
Sale of investments	34,926	30,460
Net investment earnings	5,251	1,021
Net cash provided by investing activities	9,541	6,124
Net (decrease) increase in cash and cash equivalents	(6,369)	(5,845)
Cash and cash equivalents, beginning of year	19,723	25,568
Cash and cash equivalents, end of year	\$ 13,354	\$ 19,723
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 6,132	\$ 12,282
Restricted cash and cash equivalents	7,222	7,441
	\$ 13,354	\$ 19,723

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	<b>\$ (19,498)</b>	\$ (15,984)
<b>Adjustments to reconcile operating loss to net cash used in operating activities</b>		
Increase in advanced deposits	<b>(5,161)</b>	(664)
Increase in premiums receivable, net	<b>406</b>	(2,964)
Decrease in prepaid insurance	<b>7</b>	15
Increase in estimated liability for unpaid claims and claims adjustment expense	<b>9,637</b>	6,582
Decrease in other liabilities	<b>(63)</b>	(216)
Decrease in unearned premiums	<b>762</b>	1,262
Appropriation for PICF HB4261	<b>–</b>	–
Total adjustments	<b>5,588</b>	4,015
Net cash used in operating activities	<b>\$ (13,910)</b>	\$ (11,969)
<b>Noncash activities</b>		
Increase in fair value of investments	<b>\$ 11,792</b>	\$ 6,814

*See accompanying notes.*

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements

June 30, 2014  
(Dollars in Thousands)

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

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

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

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 (Amounts referenced in this note related to insurance coverages are actual dollars) (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 a \$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, 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 (Amounts referenced in this note related to insurance coverages are actual dollars) (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.

BRIM distinguishes operating revenues and expenses from nonoperating revenues and expenses. 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, 2014 and 2013, 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 \$11,286 and \$18,045 at June 30, 2014 and 2013, respectively.

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

#### **Advance Deposits With Insurance Company and Trustee**

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

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

# 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 position includes estimated incurred claim costs, allocated loss adjustment expenses, and unallocated claims adjustment expenses.

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

#### **Receivables and Premium Income**

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

# 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 Position**

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

### **3. Deposit and Investment Risk Disclosures**

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

#### **Cash Equivalents**

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

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

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, 2014				June 30, 2013			
	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+	\$ 234,951	11.99%	P-1	A-1+	\$ 243,538	9.76%
	P-1	A-1	772,107	39.40	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa2	AA-	–	–	Aa2	AA-	–	–
	Aa3	AA-	20,000	1.02	Aa3	AA-	10,000	0.40
	Aa3	A+	–	–	Aa3	A+	–	–
			<u>20,000</u>	<u>1.02</u>			<u>10,000</u>	<u>0.40</u>
U.S. agency bonds	Aaa	AA+	82,765	4.22	Aaa	AA+	66,603	2.67
U.S. Treasury notes	Aaa	AA+	185,065	9.45	Aaa	AA+	279,755	11.21
U.S. Treasury bills	P-1	A-1+	104,995	5.36	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	NR	AA-	10,000	0.51	Aa1	AA-	10,000	0.40
	Aa2	A+	–	–	Aa2	A+	9,000	0.36
	Aa3	AA-	–	–	Aa3	AA-	15,000	0.60
	P-1	A-1+	28,000	1.43	P-1	A-1+	50,000	2.00
	P-1	A-1	144,000	7.35	P-1	A-1	160,000	6.41
	P-2	A-1	–	–	P-2	A-1	15,000	0.60
U.S. agency discount notes	P-1	A-1+	207,484	10.59	P-1	A-1+	445,784	17.86
Money market funds	Aaa	AAAm	39	–	Aaa	AAAm	200,012	8.02
Repurchase agreements:								
U.S. Treasury notes	Aaa	AA+	93,284	4.76	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	76,900	3.92	Aaa	AA+	40,500	1.62
			<u>170,184</u>	<u>8.68</u>			<u>229,326</u>	<u>9.19</u>
			<u>\$ 1,959,590</u>	<u>100.00%</u>			<u>\$ 2,495,868</u>	<u>100.00%</u>

*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, 2014 and 2013, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### 3. Deposit and Investment Risk Disclosures (continued)

#### *Custodial Credit Risk*

At June 30, 2014 and 2013, the West Virginia Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

#### *Interest Rate Risk*

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

The overall weighted-average maturity (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides the WAM for the various asset types in the WV Money Market Pool:

<b>Investment Type</b>	<b>June 30, 2014</b>		<b>June 30, 2013</b>	
	<b>Fair Value</b>	<b>WAM Days</b>	<b>Fair Value</b>	<b>WAM Days</b>
Repurchase agreements	\$ 170,184	1	\$ 229,326	3
U.S. Treasury notes	185,065	47	279,755	132
U.S. Treasury bills	104,995	44	34,993	77
Commercial paper	1,007,058	33	970,395	43
Certificates of deposit	182,000	51	259,000	66
U.S. agency discount notes	207,484	38	445,784	47
Corporate bonds and notes	20,000	17	10,000	60
U.S. agency bonds/notes	82,765	74	66,603	139
Money market funds	39	1	200,012	1
<b>Total rated investments</b>	<b>\$ 1,959,590</b>	<b>36</b>	<b>\$ 2,495,868</b>	<b>52</b>

BRIM's amount invested in the West Virginia Money Market Pool of \$11,286 is included in cash and cash equivalents at June 30, 2014, and \$18,045 at June 30, 2013, represents approximately 1% 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*

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

**Investments**

*Board of Risk and Insurance Management Fund*

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

*Investment Objectives*

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

*Asset Allocation*

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

<u>Asset Class</u>	<u>Policy Target</u>
Domestic equity	10%
International equity	10
Fixed income	80
Combined total	<u>100%</u>

## 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:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Large cap domestic	\$ 14,351	\$ 16,904	\$ 8,578	\$ 10,461
Non-large cap domestic	4,583	5,566	2,848	3,727
International equity	14,093	16,614	8,098	9,381
International nonqualified	4,101	5,303	3,972	5,130
Total return fixed income	34,557	36,014	40,280	40,444
Core fixed income	15,483	15,649	22,303	21,674
Hedge fund	27,046	29,331	25,853	28,642
TIPS (Treasury Inflation Protection Securities)	14,158	14,783	13,942	13,229
Short-term fixed income	7,214	7,214	7,187	7,187
	\$ 135,586	\$ 147,378	\$ 133,061	\$ 139,875

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

	2014	2013
Investment income:		
Interest income including realized gains/losses on sale of securities	\$ 1,726	\$ 2,173
Unrealized gain on investments	15,317	5,662
Total investment income	\$ 17,043	\$ 7,835

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, 2014 and 2013, 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 \$16,904 and \$10,461 at June 30, 2014 and 2013, respectively, 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, 2014 and 2013, 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 \$5,566 and \$3,727 at June 30, 2014 and 2013, respectively, represents approximately 0.5% of total investments in this pool.

##### International Equity Pool

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

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Deposit and Investment Risk Disclosures (continued)

Currency	June 30, 2014			June 30, 2013		
	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian dollar	\$ 90,022	\$ 674	\$ 90,696	\$ 58,914	\$ 1	\$ 58,915
Brazil cruzeiros real	95,376	1,232	96,608	73,031	483	73,514
British pound	280,040	379	280,419	226,351	1,732	228,083
Canadian dollar	115,598	423	116,021	91,289	321	91,610
Czech koruna	14,240	1	14,241	12,966	–	12,966
Danish krone	11,957	–	11,957	11,122	–	11,122
Egyptian pound	–	–	–	4,704	–	4,704
Emirati dirham	3,497	–	3,497	4,861	505	5,366
Euro	435,175	924	436,099	321,667	1,921	323,588
Hong Kong dollar	235,280	658	235,938	174,653	1,533	176,186
Hungarian forint	14,797	1	14,798	5,798	1	5,799
Indian rupee	89,933	1,126	91,059	58,591	162	58,753
Indonesian rupiah	12,473	92	12,565	10,747	123	10,870
Israeli shekel	12,876	103	12,979	13,434	92	13,526
Japanese yen	321,007	3,116	324,123	250,440	2,065	252,505
Malaysian ringgit	6,529	98	6,627	9,405	337	9,742
Mexican new peso	32,670	–	32,670	31,774	272	32,046
New Taiwan dollar	47,308	1,960	49,268	42,197	2,288	44,485
New Zealand dollar	7,678	108	7,786	5,779	135	5,914
Norwegian krone	37,343	38	37,381	21,859	1,120	22,979
Pakistani rupee	5,669	–	5,669	1,734	–	1,734
Philippine peso	9,975	30	10,005	7,640	21	7,661
Polish zloty	10,717	9	10,726	5,565	43	5,608
Qatari riyal	2,789	–	2,789	1,561	–	1,561
Singapore dollar	20,246	1,220	21,466	17,626	37	17,663
South African rand	49,744	404	50,148	47,500	2,432	49,932
South Korean won	207,761	951	208,712	155,163	1,070	156,233
Swedish krona	41,954	245	42,199	17,104	364	17,468
Swiss franc	86,527	22	86,549	62,012	–	62,012
Thailand baht	22,984	4	22,988	19,336	–	19,336
Turkish lira	61,288	101	61,389	32,902	45	32,947
Total	\$ 2,383,453	\$ 13,919	\$ 2,397,372	\$ 1,797,725	\$ 17,103	\$ 1,814,828

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 \$462,603 and \$417,554 at June 30, 2014 and 2013, respectively. BRIM's amount invested in the international equity pool of \$16,614 and \$9,381 at June 30, 2014 and 2013, represents approximately 0.6% 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 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, 2014 and 2013, was \$153,093 and \$122,091, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. BRIM's amount invested in the international nonqualified equity pool of \$5,303 and \$5,130 at June 30, 2014 and 2013, respectively, represents approximately 3.5% and 4.0%, respectively, of total investments in this pool.

#### Total Return Fixed Income Pool

##### *Credit Risk*

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

Security Type	June 30, 2014				June 30, 2013			
	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds	<b>Baa2</b>	<b>BBB</b>	\$ 571,567	24.8%	Baa2	BBB	\$ 728,766	31.7%
U.S. Treasury issues	<b>Aaa</b>	<b>AA</b>	183,531	7.9	Aaa	AA	362,481	13.9
Corporate asset-backed issues	<b>Baa2</b>	<b>A-</b>	73,955	3.2	Ba1	AA-	44,433	1.9
Corporate CMO	<b>Caa1</b>	<b>B</b>	63,110	2.7	Caa	CCC	20,767	0.9
Corporate CMO interest-only	<b>C1</b>	<b>NR</b>	7,955	0.4			—	—
Corporate preferred security	<b>Ba1</b>	<b>BB</b>	10,512	0.5	Ba2	BB	8,757	0.4
U.S. Government Agency MBS	<b>Aaa</b>	<b>AA</b>	290,820	12.6	Aaa	AA	342,200	14.4
U.S. Treasury TIPS	<b>Aaa</b>	<b>AA</b>	14,276	0.6			—	—
U.S. Government CMO Agency	<b>Aaa</b>	<b>AA</b>	89,517	3.9	Aaa	AA	61,696	2.6
U.S. Government CMO interest only	<b>Aaa</b>	<b>AA</b>	11,490	0.5			—	—
Municipal bonds	<b>A1</b>	<b>A</b>	53,510	2.3	A2	BBB	80,320	3.4
Short-term issue	<b>Aaa</b>	<b>AAA</b>	37,727	1.7	Aaa	AAA	171,036	7.2
U.S. Government Agency discount note	<b>Aaa</b>	<b>AA</b>	2,469	0.1	Aaa	AA	4,718	0.2
U.S. Government Agency TBAs	<b>Aaa</b>	<b>AA</b>	888	0.0	Aaa	AA	58,879	2.5
Foreign government bond	<b>Baa2</b>	<b>BBB</b>	192,350	8.3	Baa1	A	6,879	0.3
Foreign asset-backed issues	<b>A2</b>	<b>A</b>	17,691	0.8			—	—
Foreign corporate bonds	<b>Baa3</b>	<b>BBB</b>	245,728	10.6			—	—
Total rated investments			<u>\$ 1,867,096</u>	<u>80.9</u>			<u>\$ 1,890,932</u>	<u>79.4</u>

## 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, 2014, unrated securities include commingled investment pools of \$418,593, investments made with cash collateral for securities loaned valued at 23,881, and option contract purchased valued at \$341. These unrated securities represent 19.2% of the fair value of the pool's investments. At June 30, 2013, unrated securities include commingled investment pools of \$474,821, investments made with cash collateral for securities loaned valued at 13,882, and option contract purchased valued at \$176. These unrated securities represent 20.6% of the fair value of the pool's investments.

#### *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, 2014 and 2013, 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, 2014 and 2013, 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:

Investment Type	June 30, 2014		June 30, 2013	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
Investments in other funds	\$ 418,593	4.2	\$ 474,821	3.7
Corporate bonds	571,567	6.3	728,766	6.5
U.S. Treasury issues	183,531	10.5	362,481	6.7
U.S. Treasury TIPS	14,276	17.5	–	–
U.S. Government Agency TBAs	888	2.2	58,879	6.5
Corporate asset-backed issues	73,955	1.4	44,433	1.9
Corporate CMO	63,110	1.5	20,767	1.4
Corporate CMO interest only	7,955	25.7	–	–
U.S. Government Agency MBS	290,820	2.2	342,200	2.3
U.S. Government Agency discount notes	2,469	5.3	4,718	0.4
U.S. Government Agency CMO	89,517	2.4	61,696	2.2
U.S. Government Agency CMO interest only	11,490	(1.3)	–	–
Municipal bonds	53,510	9.0	80,320	8.4
Investments made with cash collateral for securities loaned	23,881	–	13,882	–
Short-term issues	37,727	–	171,036	–
Foreign asset-backed issues	17,691	0.7	–	–
Foreign corporate bonds	245,728	6.0	–	–
Foreign government bond	192,350	6.5	6,879	7.0
Total assets	<b>\$ 2,299,058</b>	<b>5.2</b>	<b>\$ 2,370,878</b>	<b>4.7</b>

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

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

*(Dollars in Thousands)*

#### **3. Deposit and Investment Risk Disclosures (continued)**

are highly sensitive to interest rate changes. At June 30, 2014 and 2013, the Total Return Fixed Income pool held \$462,892 and \$527,975, respectively, of these securities. This represents approximately 20% and 22%, respectively, of the value of the fixed income pools.

BRIM's amount invested in the Total Return Fixed Income pool of \$36,014 and \$40,444 at June 30, 2014 and 2013, respectively, represents approximately 15.6% of total investments in this pool for both years.

#### *Foreign Currency Risk*

The pool has foreign government bonds and foreign corporate bonds that are dominated in foreign currencies that are exposed to foreign currency risks. The Pool also has foreign-denominated futures contracts and 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 \$186,841, or 45%, at June 30, 2014, and \$153,875, or 32%, at June 30, 2013, 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, 2014 and 2013, 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:

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

(Dollars in Thousands)

**3. Deposit and Investment Risk Disclosures (continued)**

Security Type	June 30, 2014				June 30, 2013			
	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds	A3	A	\$ 203,346	19.1%	A3	A	\$ 270,356	20.8%
U.S. Treasury issues	Aaa	AA	165,535	15.6	Aaa	AA	282,660	21.7
Corporate asset-backed issues	A2	AA	42,858	4.0	Aa3	AA	48,767	3.7
Corporate CMO	A2	AA	108,098	10.2	A2	AA	134,887	10.4
Corporate CMO principal only	Ba2	AA	389	—			—	—
Corporate CMO interest only	Ba3	AAA	1,607	0.2			—	—
Foreign asset-backed issues	Aa1	AA	3,394	0.3			—	—
Foreign government bonds	Aa2	AA	10,356	1.0	Aa1	AA	12,467	1.0
Foreign corporate bonds	A2	A	41,750	3.9			—	—
U.S. Government Agency MBS	Aaa	AA	200,083	18.8	Aaa	AA	220,519	17.0
U.S. Government Agency CMO	Aaa	AA	164,375	15.4	Aaa	AA	259,377	19.9
U.S. Government Agency CMO principal only	Aaa	AA	12,688	1.2			—	—
U.S. Government Agency CMO interest only	Aaa	AA	8,997	0.8			—	—
U.S. Government Agency bonds	Aaa	AA	24,449	2.3	Aaa	AA	26,487	2.0
Municipal bonds	Aa2	AA	8,378	0.8	Aa2	AA	7,311	0.6
Short-term issue	Aaa	AAA	33,771	3.2	Aaa	AAA	10,892	0.8
Total rated investments			<u>\$ 1,030,074</u>	<u>96.8</u>			<u>\$ 1,273,723</u>	<u>97.9</u>

Unrated securities include investments made with cash collateral for securities loaned valued at \$34,417, or 3.2%, of the fair value of the Pool's investments for 2014.

*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, 2014 and 2013, the Core Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

*(Dollars in Thousands)*

### 3. Deposit and Investment Risk Disclosures (continued)

#### *Custodial Credit Risk*

At June 30, 2014 and 2013, 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:

Investment Type	June 30, 2014		June 30, 2013	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
Corporate bonds	\$ 203,346	6.3	\$ 270,356	5.7
U.S. Treasury issues	165,535	7.6	282,660	6.5
Corporate asset-backed issues	42,858	1.3	48,767	1.4
Corporate CMO	108,098	2.1	134,887	2.2
Corporate CMO principal only	389	2.8	-	-
Corporate CMO interest only	1,607	(4.0)	-	-
Foreign asset-backed issues	3,394	-	-	-
Foreign government bonds	10,356	6.6	12,467	5.4
Foreign corporate bonds	41,750	6.3	-	-
U.S. Government Agency MBS	200,083	4.8	220,519	4.6
U.S. Government Agency bonds	24,449	5.2	26,487	5.6
U.S. Government Agency CMO	164,375	3.5	259,377	3.7
U.S. Government Agency CMO principal only	12,688	6.8	-	-
U.S. Government Agency CMO interest only	8,997	1.8	-	-
Municipal bonds	8,378	14.6	7,311	14.3
Investments made with cash collateral for securities loaned	34,417	-	26,850	-
Short-term issue	33,771	-	10,892	-
<b>Total assets</b>	<b>\$ 1,064,491</b>	<b>4.9</b>	<b>\$ 1,300,573</b>	<b>4.6</b>

## 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, 2014 and 2013, the Core Fixed Income pool held \$542,489 and \$663,550, respectively, of these securities. This represents approximately 51% and 51%, respectively, of the value of the fixed income pool.

BRIM's amount invested in the Core Fixed Income pool of \$15,649 and \$21,674 at June 30, 2014 and 2013, respectively, represents approximately 1.5% and 1.7%, respectively, 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, 2014, the funds were indirectly exposed to foreign currency risk. The dollar amount of the funds invested in foreign currencies was not disclosed by the WVIMB in its financial statement footnotes for this fund. At June 30, 2014, the funds were indirectly exposed to foreign currency risk. The dollar amount of the funds invested in foreign currencies was not disclosed by the WVIMB in its financial statement footnotes for this fund. BRIM's amount invested in the Hedge Fund of \$29,331 and \$28,642 at June 30, 2014 and 2013, respectively, represents approximately 1.9% and 2.1%, respectively, 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 TIPS pool invests in U.S. 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, 2014				June 30, 2013			
	Moody’s	S&P	Fair Value	Percent of Assets	Moody’s	S&P	Fair Value	Percent of Assets
U.S. Treasury inflation-protected securities	Aaa	AA	\$ 601,027	100.0%	Aaa	AA+	\$ 653,371	99.9%
Short-term issue	Aaa	AAA	244	–	Aaa	AAA	601	0.1
Total rated investments			<u>\$ 601,271</u>	<u>100.0%</u>			<u>\$ 653,972</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, 2014 and 2013, 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, 2014 and 2013, 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:

Investment Type	June 30, 2014		June 30, 2013	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
U.S. Treasury inflation-protected securities	\$ 601,027	7.8	\$ 653,371	7.8
Short-term issue	244	–	601	–
Total assets	<u>\$ 601,271</u>	<u>7.8</u>	<u>\$ 653,972</u>	<u>7.8</u>

BRIM’s amount invested in the TIPS pool of \$14,783 and \$13,229 at June 30, 2014 and 2013, respectively, represents approximately 2.4% and 2.0%, respectively, of total investments in this pool.

*Foreign Currency Risk*

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

**Advanced Deposits**

*Insurance Company and Trustee*

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

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, 2014				June 30, 2013			
	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Aaa	AAA	\$ -	-%	Aaa	AAA	\$ 1,610	0.77%
	Aaa	AA+	-	-	Aaa	AA+	-	-
	Aa1	AA+	1,218	0.59	Aa1	AA+	965	0.47
	Aa1	AA	-	-	Aa1	AA	4,517	2.17
	Aa1	AA-	2,381	1.15	Aa1	AA-	1,911	0.92
	Aa2	AA	1,152	0.56	Aa2	AA	2,226	1.07
	Aa2	AA-	2,424	1.17	Aa2	AA-	1,943	0.93
	Aa3	AA-	1,139	0.55	Aa3	AA-	967	0.47
			<u>8,314</u>	<u>4.02</u>			<u>14,139</u>	<u>6.80</u>
Collateralized mortgage obligations	Aaa	AA+	13,776	6.66	Aaa	-	4,199	2.02
			<u>13,776</u>	<u>6.66</u>			<u>4,199</u>	<u>2.02</u>
U.S. Treasury bonds and notes	Aaa	AA+	177,871	86.03	Aaa	AAA	157,591	75.77
U.S. Agency bonds	Aaa	AA+	6,456	3.12	Aaa	AA+	27,373	13.16
Agency-backed securities	Aaa	AA+	-	-	Aaa	AA+	4,157	2.00
Money market funds	Aaa	AAA	357	0.17	Aaa	AAA	514	0.25
Total rated investments			<u>\$ 206,774</u>	<u>100.00%</u>			<u>\$ 207,973</u>	<u>100.00%</u>

As of June 30, 2013, BRIM had not liquidated the cash liquidity pool investments for outstanding claims to be paid of \$6,360. The advance deposits with insurance company and trustee is recorded net of this amount on the statement of net position.

*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, 2014 and 2013, 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:

<b>Investment Type</b>	<b>June 30, 2014</b>		<b>June 30, 2013</b>	
	<b>Fair Value</b>	<b>WAM Years</b>	<b>Fair Value</b>	<b>WAM Years</b>
Corporate bonds and notes	\$ 8,314	3.2	\$ 14,139	4.1
U.S. Treasury bonds	177,871	3.1	157,591	3.4
U.S. agency bonds	6,456	5.3	27,373	4.5
Collateralized mortgage obligations	13,776	3.8	4,199	8.0
Agency-backed securities	–	–	4,157	4.0
Money market funds	357	–	514	–
<b>Total rated investments</b>	<b>\$ 206,774</b>	<b>3.2</b>	<b>\$ 207,973</b>	<b>3.7</b>

*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:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Unpaid claims and claims adjustment expense liability at beginning of year	<b>\$ 143,568</b>	\$ 136,986	\$ 126,227
Incurred claims and claims adjustment expense:			
Provision for insured events of the current year	<b>58,389</b>	57,276	57,864
Decrease in provision for insured events of prior years	<b>3,237</b>	(3,259)	(4,468)
Total incurred claims and claims adjustment expense	<b>61,626</b>	54,017	53,396
Payments:			
Claims and claims adjustment expense attributable to insured events of the current year	<b>(10,560)</b>	57,276	(10,156)
Claims and claims adjustment expense attributable to insured events of prior years	<b>(41,430)</b>	(3,259)	(32,481)
Total payments	<b>(51,990)</b>	54,017	(42,637)
Total unpaid claims and claims adjustment expense liability at end of year	<b>\$ 153,204</b>	\$ 143,568	\$ 136,986

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2014, 2013 and 2012 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net position of approximately \$13,692, \$12,683 and \$12,052 for fiscal years 2014, 2013 and 2012, 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 2014, 14.5% for 2013, and 14.5% for 2012. 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>2014</u>	<u>2013</u>	<u>2012</u>
BRIM contributions (14.5% – 2014, 14.5% – 2013, and 14.5% – 2012)	\$ 142	\$ 132	\$ 145
Employee contributions (4.5%)	47	43	45
Total contributions	<u>\$ 189</u>	<u>\$ 175</u>	<u>\$ 190</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 (OPEB)*

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 plan and through external managed care organizations, 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 57<sup>th</sup> 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. BRIM's OPEB expense for fiscal years 2014 and 2013 was approximately \$63 and \$56, respectively, of which approximately \$388 and \$372 remained unpaid as of June 30, 2014 and 2013, respectively, and are recorded in accrued expenses and other liabilities in the statements of net position. For fiscal years 2014, 2013, and 2012, BRIM's OPEB contribution was approximately \$54, \$38, and \$38,

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

*(Dollars in Thousands)*

**5. Employee Benefit Plans (continued)**

respectively, of the total required contribution of \$63, \$56, and \$220, respectively. The actual contribution represents 85%, 68%, and 17% of the total required contribution for 2014, 2013, and 2012, respectively. BRIM's policy is to fund at least the minimum annual premium component of the ARC. There are currently 26 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 \$135 and \$145 for the years ended June 30, 2014 and 2013, respectively, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

2015	\$139
2016	139
2017	70

**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 \$27,226 and \$25,646 for the years ended June 30, 2014 and 2013, respectively.

BRIM is required by Senate Bill 1002 to remit amounts equal to the gross premium tax attributable to premiums collected by BRIM. These amounts are to be placed in a separate account known as "the Premium Tax Savings Fund" (the Fund) maintained by the State Treasurer. Amounts deposited by BRIM into the Fund approximated \$1,812 and \$1,781 for the years ended June 30, 2014 and 2013, respectively. The Fund is not included in BRIM's financial statements, but is included in the general fund of the State.

In 2014, a transfer of \$2,000 to the Patient Injury Compensation Fund as authorized by House Bill 4261 was made.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

*(Dollars in Thousands)*

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

BRIM has entered into two reinsurance agreements for excess coverage with unrelated insurance companies wherein the company assumes the liability over BRIM's limit for a ceded premium. BRIM obtains an excess policy from the commercial market which gives boards of education a liability limit of up to \$5 million in excess of BRIM's \$1 million self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM's \$1 million self-insured limit. These reinsurance agreements have been accounted for as a transfer of risk in the accompanying financial statements. However, BRIM is not relieved of its primary obligation to the insureds in the reinsurance transaction. BRIM had one reinsurance recovery for the fiscal year ended June 30, 2014 of \$1,000 and \$0 for the fiscal year ended June 30, 2013.

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

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

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

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

## Required Supplementary Information

# West Virginia Board of Risk and Insurance Management

## Ten-Year Claims Development Information (Unaudited)

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

	Fiscal and Policy Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	<i>(In Thousands)</i>									
1) Premiums and investment revenues										
Earned	\$ 95,336	\$ 89,690	\$ 98,270	\$ 83,499	\$ 69,739	\$ 83,088	\$ 71,320	\$ 64,361	\$ 54,969	\$ 69,172
Ceded	3,911	4,145	6,151	6,394	5,944	6,257	6,075	5,386	5,825	6,102
Net earned	91,425	85,545	92,119	77,105	63,795	76,831	65,245	58,975	49,144	63,070
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	8,301	8,894	8,536	8,045	7,840	8,043	7,867	7,562	7,240	-
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	65,674	58,491	59,678	59,246	56,194	51,388	53,728	60,176	57,276	58,389
Ceded	5	172	3,597	2,000	300	-	-	2,312	-	-
Net incurred	65,669	58,319	56,081	57,246	55,894	51,388	53,728	57,864	57,276	58,389
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	9,134	10,097	12,416	8,352	9,753	9,965	10,757	10,156	10,870	10,560
One year later	16,901	17,547	16,942	18,097	19,069	17,009	18,034	20,830	18,936	
Two years later	25,283	23,291	24,345	26,240	25,457	25,606	26,398	30,577		
Three years later	33,505	31,901	30,733	33,488	32,126	32,612	34,305			
Four years later	37,904	37,202	35,469	38,077	36,501	38,174				
Five years later	42,490	39,306	37,636	39,518	39,349					
Six years later	45,173	40,739	40,076	41,403						
Seven years later	45,641	40,886	41,334							
Eight years later	45,883	42,730								
Nine years later	47,114									
5) Reestimated ceded claims and expenses	5	172	3,597	2,000	300	-	-	2,312	-	-
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	65,669	58,319	56,081	57,246	55,894	51,388	53,728	57,864	57,276	58,389
One year later	61,419	51,183	53,924	57,108	48,432	46,571	52,844	58,812	56,883	
Two years later	56,023	47,726	48,330	51,881	46,176	47,102	50,289	61,106		
Three years later	52,893	45,490	44,898	46,708	45,328	46,116	48,480			
Four years later	50,179	44,898	43,179	45,459	44,112	44,171				
Five years later	50,097	43,237	42,181	44,323	46,551					
Six years later	48,374	42,839	42,862	44,349						
Seven years later	47,843	43,061	43,340							
Eight years later	48,178	43,548								
Nine years later	47,817									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(17,852)	(14,771)	(12,741)	(12,897)	(9,343)	(7,217)	(5,248)	3,242	(393)	-

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 those 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									
	2014					2013				
	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	\$ 137,984	\$ 4,703	\$ 881	\$ -	\$ 143,568	\$ 129,072	\$ 7,177	\$ 737	\$ -	\$ 136,986
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	52,067	5,686	636	-	58,389	50,961	5,589	726	-	57,276
(Decrease) increase in provision for insured events of prior fiscal years	4,960	(1,422)	(301)	-	3,237	(3,929)	752	(91)	9	(3,259)
Total incurred claims and claims adjustment expense	57,027	4,264	335	-	61,626	47,032	6,341	635	9	54,017
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(8,541)	(1,968)	(51)	-	(10,560)	(8,789)	(1,939)	(142)	-	(10,870)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	(39,637)	(1,489)	(304)	-	(41,430)	(29,331)	(6,876)	(349)	(9)	(36,565)
Total claims and claims adjustment expense payments	(48,178)	(3,457)	(355)	-	(51,990)	(38,120)	(8,815)	(491)	(9)	(47,435)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	\$ 146,833	\$ 5,510	\$ 861	\$ -	\$ 153,204	\$ 137,984	\$ 4,703	\$ 881	\$ -	\$ 143,568

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## Statistical Section

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Since 1985 West Virginia Pumpkin Park in Milton has celebrated the West Virginia Pumpkin Festival, which has turned into one of the largest events in the state. The festival was designed to help farmers with the raising and selling of pumpkins. Each October, more than 50,000 people travel to Milton to participate in our celebration of the pumpkin harvest. The festival hosts over 100 skilled artisans who display juried crafts. Some of the area's finest musicians can also be found displaying their talent at the WV Pumpkin Festival.

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## 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 2014 and Fiscal Year 2004

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 2004 through 2013

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

Schedule 7 – Full-Time Equivalent Employees Fiscal Years 2005 through 2014

Schedule 8 – Claims Dollars Incurred by Customer Type for Fiscal Years 2005 through 2014

Schedule 9 – Losses Incurred by Coverage Fiscal Years 2005 through 2014

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 2014

## SCHEDULE 1

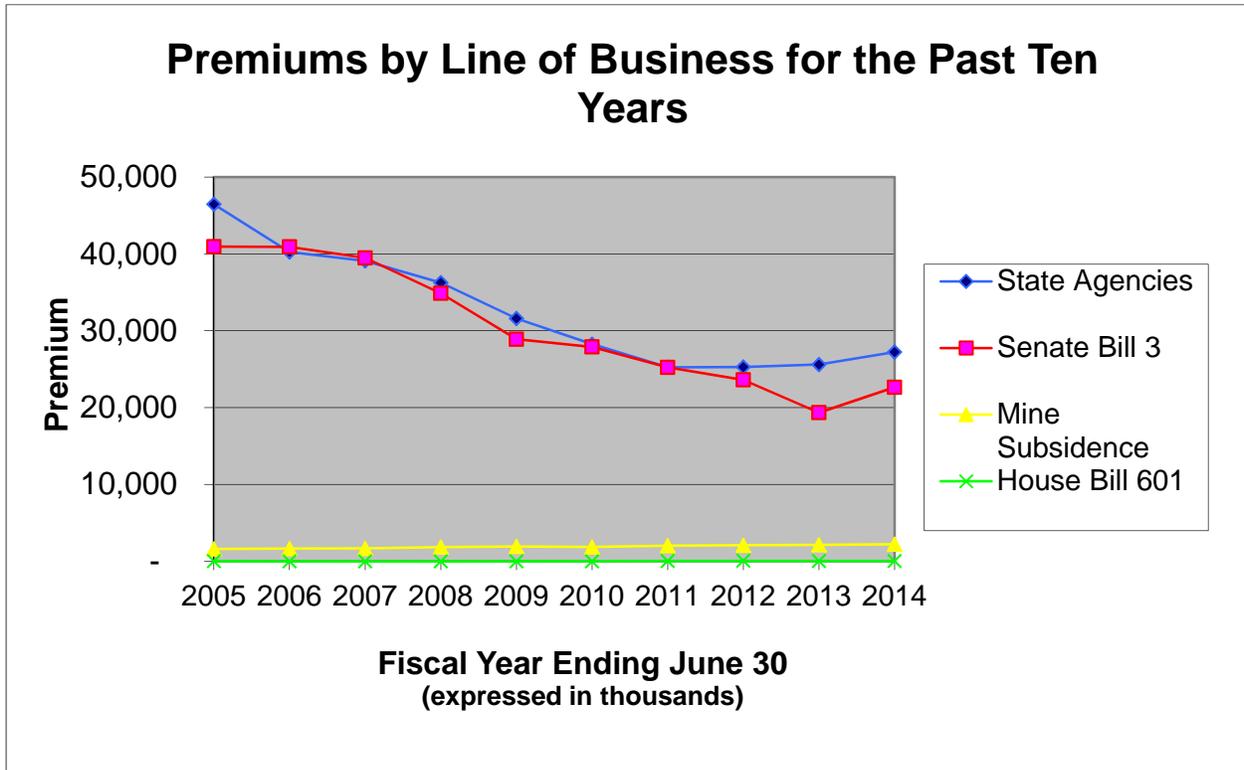
**Comparative Statement of Net Assets and Changes in Net Assets (Deficiency)  
Last Ten Fiscal Years  
(Expressed in Thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>					
Premiums	\$ 52,128	\$ 47,134	\$ 51,046	\$ 52,538	\$ 58,007
Less Excess Coverage/Reinsurance Premiums	(6,102)	(5,825)	(5,386)	(6,075)	(6,257)
<b>Net Operating Revenues</b>	<u>46,026</u>	<u>41,309</u>	<u>45,660</u>	<u>46,463</u>	<u>51,750</u>
<b>Operating Expenses</b>					
Claims and Claims Adjustment Expense	61,626	54,018	53,396	33,598	31,668
General and Administrative	3,898	3,275	3,892	4,026	3,946
<b>Total Operating Expenses</b>	<u>65,524</u>	<u>57,293</u>	<u>57,288</u>	<u>37,624</u>	<u>35,614</u>
<b>Operating Income (loss)</b>	(19,498)	(15,984)	(11,628)	8,839	16,136
<b>Nonoperating Revenues (Expenses)</b>					
Interest Income	17,043	7,835	13,315	18,782	25,081
Financing Income	--	--	--	--	32
On behalf contributions	--	--	--	--	--
Appropriations from State of West Virginia	--	--	--	--	--
Distribution to Physicians' Mutual	--	--	--	--	--
Appropriation transfer HB4261	(2,000)	--	--	--	--
<b>Total Nonoperating Revenue</b>	<u>15,043</u>	<u>7,835</u>	<u>13,315</u>	<u>18,782</u>	<u>25,113</u>
<b>Change in Net Assets (Deficiency)</b>	<u>(4,455)</u>	<u>(8,149)</u>	<u>1,687</u>	<u>27,621</u>	<u>41,249</u>
<b>Net Assets (Deficiency) at Year-End</b>					
Restricted	53,595	49,372	45,599	43,061	38,420
Unrestricted	155,316	163,994	175,916	176,767	153,787
<b>Total Net Assets (Deficiency)</b>	<u>\$ 208,911</u>	<u>\$ 213,366</u>	<u>\$ 221,515</u>	<u>\$ 219,828</u>	<u>\$ 192,207</u>

Source: Compiled from BRIM's internal accounting records

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 62,427	\$ 72,986	\$ 80,248	\$ 82,824	\$ 89,030
(5,944)	(6,394)	(6,151)	(4,145)	(3,912)
<u>56,483</u>	<u>66,592</u>	<u>74,097</u>	<u>78,679</u>	<u>85,118</u>
36,604	42,982	35,136	37,076	56,675
3,894	4,247	4,305	4,180	4,294
<u>40,498</u>	<u>47,229</u>	<u>39,441</u>	<u>41,256</u>	<u>60,969</u>
15,985	19,363	34,656	37,423	24,149
7,312	10,512	18,022	6,866	6,306
31	30	25	28	40
--	30	--	--	--
--	--	--	--	2,000
--	--	--	--	(4,582)
--	--	--	--	--
<u>7,343</u>	<u>10,572</u>	<u>18,047</u>	<u>6,894</u>	<u>3,764</u>
<u>23,328</u>	<u>29,935</u>	<u>52,703</u>	<u>44,317</u>	<u>27,913</u>
33,924	33,634	31,117	26,277	20,530
117,034	93,996	66,430	18,567	(20,003)
<u>\$ 150,958</u>	<u>\$ 127,630</u>	<u>\$ 97,547</u>	<u>\$ 44,844</u>	<u>\$ 527</u>

**SCHEDULE 2**



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
2005	\$ 46,465	\$ 40,952	\$ 1,595	\$ 18
2006	\$ 40,252	\$ 40,920	\$ 1,652	-
2007	\$ 39,091	\$ 39,481	\$ 1,676	-
2008	\$ 36,259	\$ 34,875	\$ 1,852	-
2009	\$ 31,596	\$ 28,902	\$ 1,929	-
2010	\$ 28,257	\$ 27,889	\$ 1,861	-
2011	\$ 25,239	\$ 25,233	\$ 2,032	\$ 34
2012	\$ 25,290	\$ 23,603	\$ 2,090	\$ 63
2013	\$ 25,607	\$ 19,345	\$ 2,142	\$ 40
2014	\$ 27,226	\$ 22,642	\$ 2,220	\$ 40

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.

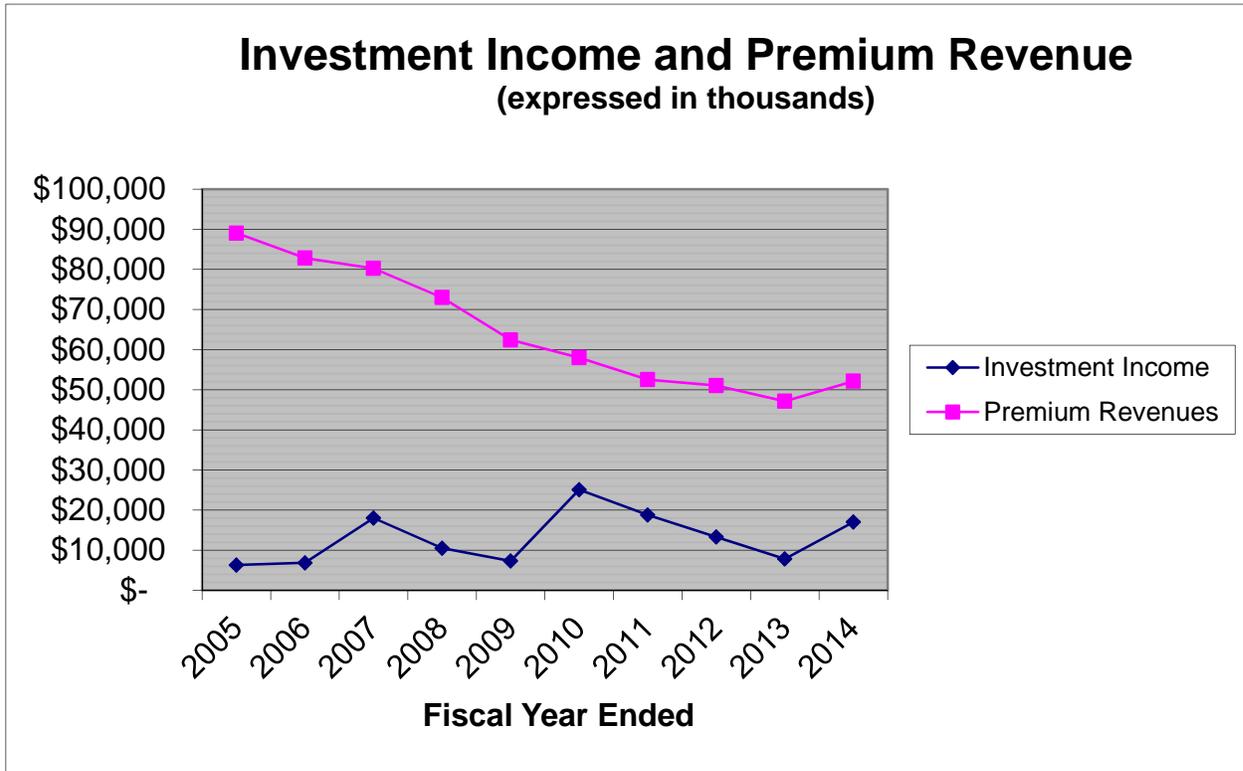
Source: BRIM’s internal financial statements.

## SCHEDULE 3

<b>Top 10 State Agency Premiums for Fiscal Year 2014</b>		<b>Top 10 State Agency Premiums for Fiscal Year 2005</b>		
1	STATE POLICE, WEST VIRGINIA	5,135,662	WEST VIRGINIA UNIVERSITY	
2	WEST VIRGINIA UNIVERSITY	4,958,219	PUBLIC SAFETY DIVISION	
3	HIGHWAYS, DIVISION OF	4,314,120	DEPARTMENT OF HEALTH AND HUMAN RESOURC	
4	HEALTH & HUMAN RESOURCES, DEPARTMENT OF	3,048,569	DIVISION OF HIGHWAYS	
5	MARSHALL UNIVERSITY	1,675,343	MARSHALL UNIVERSIT Y	
6	CORRECTIONS, DIVISION OF	902,492	CORRECTIONS DIVISION	
7	REGIONAL JAIL & CORR. FAC. AUTHORITY	494,702	DIVISION OF TOURISM	
8	WEST VIRGINIA PARKWAYS AUTHORITY	430,066	DIVISION OF NATURAL RESOURCES	
9	GENERAL SERVICES DIVISION	429,178	DIVISION OF ENVIRONMENTAL PROTECTION	
10	PARKS, WEST VIRGINIA STATE	401,362	WEST VIRGINIA PARKWAYS AUTHORITY	
	Total Top Ten	<b>\$ 21,789,713</b>	Total Top Ten	
			<b>\$ 37,861,726</b>	
Total State Premium Billing for 2014		<b>\$ 27,226,073</b>	Total State Premium Billing for 2005	
% of top 10 in relation to all state agency billings		<b>80.03%</b>	% of top 10 in relation to all state agency billings	
			<b>80.85%</b>	
<b>Top 20 SB 3 Premiums for Fiscal Year 2014</b>		<b>Top 20 SB 3 Premiums for Fiscal Year 2004</b>		
1	KANAWHA COUNTY BOARD OF EDUCATION	\$1,323,204	KANAWHA COUNTY BOARD OF EDUCATION	
2	RALEIGH COUNTY BOARD OF EDUCATION	638,067	RALEIGH COUNTY BOARD OF EDUCATION	
3	ST. ALBANS, CITY OF	541,691	BERKELEY COUNTY BOARD OF EDUCATION	
4	BERKELEY COUNTY BOARD OF EDUCATION	527,353	CABELL COUNTY BOARD OF EDUCATION	
5	PUTNAM COUNTY BOARD OF EDUCATION	434,029	HARRISON COUNTY BOARD OF EDUCATION	
6	HARRISON COUNTY BOARD OF EDUCATION	414,860	WOOD COUNTY BOARD OF EDUCATION	
7	MERCER COUNTY BOARD OF EDUCATION	397,061	CITY OF BECKLEY	
8	WAYNE COUNTY BOARD OF EDUCATION	369,826	MONONGALIA COUNTY BOARD OF EDUCATION	
9	WEST VIRGINIA UNIVERSITY MEDICAL CORP.	354,533	MERCER COUNTY BOARD OF EDUCATION	
10	MARION COUNTY BOARD OF EDUCATION	340,504	CITY OF ST. ALBANS	
11	CABELL COUNTY BOARD OF EDUCATION	337,851	PRESTERA CENTER FOR MENTAL HEALTH	
12	LOGAN COUNTY BOARD OF EDUCATION	331,059	MINGO COUNTY BOARD OF EDUCATION	
13	WOOD COUNTY BOARD OF EDUCATION	330,760	MONONGALIA COUNTY COMMISSION	
14	MONONGALIA COUNTY BOARD OF EDUCATION	320,497	WHEELING PARK COMMISSION	
15	MINGO COUNTY BOARD OF EDUCATION	309,330	BOONE COUNTY COMMISSION	
16	JEFFERSON COUNTY BOARD OF EDUCATION	305,903	PUTNAM COUNTY BOARD OF EDUCATION	
17	FAYETTE COUNTY BOARD OF EDUCATION	267,061	WAYNE COUNTY BOARD OF EDUCATION	
18	OHIO COUNTY BOARD OF EDUCATION	263,133	WEST VIRGINIA UNIVERSITY MEDICAL CORPORAT	
19	GREENBRIER COUNTY BOARD OF EDUCATION	244,938	MARION COUNTY BOARD OF EDUCATION	
20	MINGO COUNTY COMMISSION	230,272	FAYETTE COUNTY BOARD OF EDUCATION	
	Total Top Twenty	<b>\$ 8,281,932</b>	Total Top Twenty	
			<b>\$ 10,407,827</b>	
Total SB 3 Premium Billing for 2014		<b>\$ 22,642,170</b>	Total SB 3 Premium Billing for 2005	
% of top 20 in relation to total SB 3 billings		<b>36.58%</b>	% of top 20 in relation to total SB 3 billings	
			<b>23.65%</b>	

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

**SCHEDULE 4**



Fiscal Year	Investment Income	Premium Revenue
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
2013	\$ 7,835	\$ 47,134
2014	\$ 17,043	\$ 52,128

This chart illustrates BRIM’s higher investment earnings in 5 of the last 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, 2014			Estimated as of June 30, 2005		
Major West Virginia Employers	Number of Employees	Percentage of Total Employed	Major West Virginia Employers	Number of Employees	Percentage of Total Employed
Local Government	75,000 - 79,999	9.80%	Local Government	70,000 - 74,999	10.02%
State Government	40,000 - 44,999	5.88%	State Government	40,000 - 44,999	6.01%
Federal Government	20,000 - 24,999	3.27%	Federal Government	20,000 - 24,999	3.34%
Wal-Mart Associates, Inc.	10,000 - 13,000	1.83%	Wal-Mart Associates, Inc.	10,000 - 13,999	1.87%
West Virginia United Health System	7,000 - 9,999	0.78%	Charleston Area Medical Center, Inc.	3,000 - 5,999	0.80%
Charleston Area Medical Center, Inc.	5,000 - 6,999	0.78%	West Virginia University Hospitals	3,000 - 5,999	0.80%
Kroger	3,000 - 4,999	0.78%	Kroger	3,000 - 5,999	0.80%
Mylan Pharmaceuticals, Inc.	3,000 - 4,999	0.78%	CSX Corporation	3,000 - 5,999	0.80%
Murray American Energy, Inc	1,000 - 2,999	0.39%	American Electric Power	1,000 - 2,999	0.40%
St. Mary's Medical Center, Inc.	1,000 - 2,999	0.39%	E I DuPont De Nemours and Company	1,000 - 2,999	0.40%
Lowe's Home Centers, Inc.	1,000 - 2,999	0.39%	Consolidated Coal	1,000 - 2,999	0.40%
Mentor Management, Inc.	1,000 - 2,999	0.39%	Verizon	1,000 - 2,999	0.40%
Res-Care Inc.	1,000 - 2,999	0.39%	Weirton Steel Corporation	1,000 - 2,999	0.40%
Actual Total	<b>765,600</b>			<b>748,500</b>	

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

## SCHEDULE 6

### Demographic and Economic Indicators Calendar Years 2004-2013

	2013	2012	2011	2010
<b>Population</b>				
West Virginia	1,854,304	1,855,413	1,855,364	1,852,994
Change	-0.06%	0.00%	0.13%	1.83%
National	316,128,839	313,914,040	311,591,917	308,745,538
Change	0.71%	0.75%	0.92%	0.57%
<b>Total Personal Income</b>				
West Virginia (in millions)	64,928	63,968	62,178	59,417
Change	1.50%	2.88%	4.65%	3.27%
National (in millions)	13,602,897	13,401,869	12,981,741	12,353,577
Change	1.50%	3.24%	5.08%	3.67%
<b>Per Capita Personal Income*</b>				
West Virginia	35,015	34,477	33,513	32,042
Change	1.56%	2.88%	4.59%	2.91%
National	43,030	42,693	41,663	39,937
Change	0.79%	2.47%	4.32%	2.81%
<b>Median Age</b>				
	41.0	41.3	41.1	41.3
<b>Educational Attainment</b>				
9th Grade or Less	6.2%	3.0%	6.8%	6.1%
Some High School, No Diploma	10.2%	5.0%	11.3%	10.7%
High School Diploma	44.1%	40.1%	41.3%	41.6%
Some College, No Degree	13.4%	26.3%	17.6%	18.3%
Associate, Bachelor's or Graduate Degree	26.1%	25.6%	23.0%	23.3%
<b>Labor Force and Employment (people in thousands)</b>				
Civilian Labor Force	796.0	805.0	799.9	782.3
Employed	744.7	746.0	736.1	711.1
Unemployed	51.3	59.0	63.8	71.2
Unemployment Rate	6.5%	7.3%	8.0%	9.1%
<b>Nonfarm Wage and Salary Workers Employed in West Virginia</b>				
<b>Goods Producing Industries (people in thousands)</b>				
Mining	31.8	33.7	33.6	29.9
Construction	34.3	35.6	33	32.6
Manufacturing-Durable Goods	29.1	29.6	30	29.6
Manufacturing-NonDurable Goods	19.3	19.6	19.5	19.5
<b>Total Goods Producing Industries</b>	<b>114.6</b>	<b>118.5</b>	<b>116.1</b>	<b>111.6</b>
<b>Non-Goods Producing Industries (people in thousands)</b>				
Trade	110.3	111.0	109.9	109.2
Service	384.5	381.7	376.2	372.5
State and Local Government	130.5	130.7	128.3	128.3
Federal Government	23.3	23.3	23.5	24.3
<b>Total Non-Goods Producing Industries</b>	<b>648.6</b>	<b>646.7</b>	<b>637.9</b>	<b>634.3</b>
<b>Total Nonfarm Wage and Salary Employment</b>	<b>763.2</b>	<b>765.2</b>	<b>754.0</b>	<b>745.9</b>

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

Various population, personal income and per capita personal income figures have been amended from last year's schedule.

Sources: Workforce West Virginia Research, Information, and Analysis Office, the Census, Survey of Current Business and the West Virginia Center on Budget & Policy

2009	2008	2007	2006	2005	2004
1,819,777	1,814,873	1,811,198	1,807,237	1,803,920	1,803,302
0.27%	0.20%	0.22%	0.18%	0.03%	0.06%
307,006,550	304,374,846	301,579,895	298,593,212	295,753,151	293,045,739
0.86%	0.93%	1.00%	0.96%	0.92%	0.97%
57,535	57,576	54,100	51,862	48,139	46,497
-0.07%	6.43%	4.32%	7.73%	3.53%	6.06%
11,916,773	12,451,660	11,900,562	11,256,516	10,476,669	9,928,790
-4.30%	4.63%	5.72%	7.44%	5.52%	8.51%
31,137	31,286	29,497	28,372	26,443	25,784
-0.48%	6.07%	3.97%	7.29%	2.55%	6.00%
38,846	40,947	39,506	37,725	35,452	33,881
-5.13%	3.65%	4.72%	6.41%	4.64%	7.50%
40.5	40.6	40.4	40.7	40.7	40.2
6.5%	6.6%	7.0%	7.1%	10.0%	10.0%
10.7%	11.1%	11.8%	11.9%	14.8%	14.8%
41.0%	40.9%	41.1%	42.7%	39.4%	39.4%
18.5%	18.5%	16.7%	16.1%	16.6%	16.6%
23.2%	22.9%	23.4%	22.2%	19.2%	19.2%
797.9	806.0	813.0	810.0	798.0	788.0
734.6	772.0	778.0	773.0	759.0	747.0
63.3	34.0	35.0	37.0	39.0	41.0
7.9%	4.3%	4.3%	4.6%	4.9%	5.3%
29.6	30.7	27.5	28.1	25.9	23.8
34.1	38.4	38.7	39.2	36.8	34.6
30.9	35.2	37.2	38.4	38.8	39.2
19.8	21.1	21.8	22.6	23	23.8
<b>114.4</b>	<b>125.4</b>	<b>125.2</b>	<b>128.3</b>	<b>124.5</b>	<b>121.4</b>
110.0	114.4	116.2	115.5	113.6	111.9
369.9	374	369.5	367.8	364.9	360.5
126.3	123.7	122.6	122.4	121.7	121.4
23.6	22.9	22.5	22.1	21.9	21.8
<b>629.8</b>	<b>635</b>	<b>630.8</b>	<b>627.8</b>	<b>622.1</b>	<b>615.6</b>
<b>744.2</b>	<b>760.4</b>	<b>756</b>	<b>756.1</b>	<b>746.6</b>	<b>737</b>

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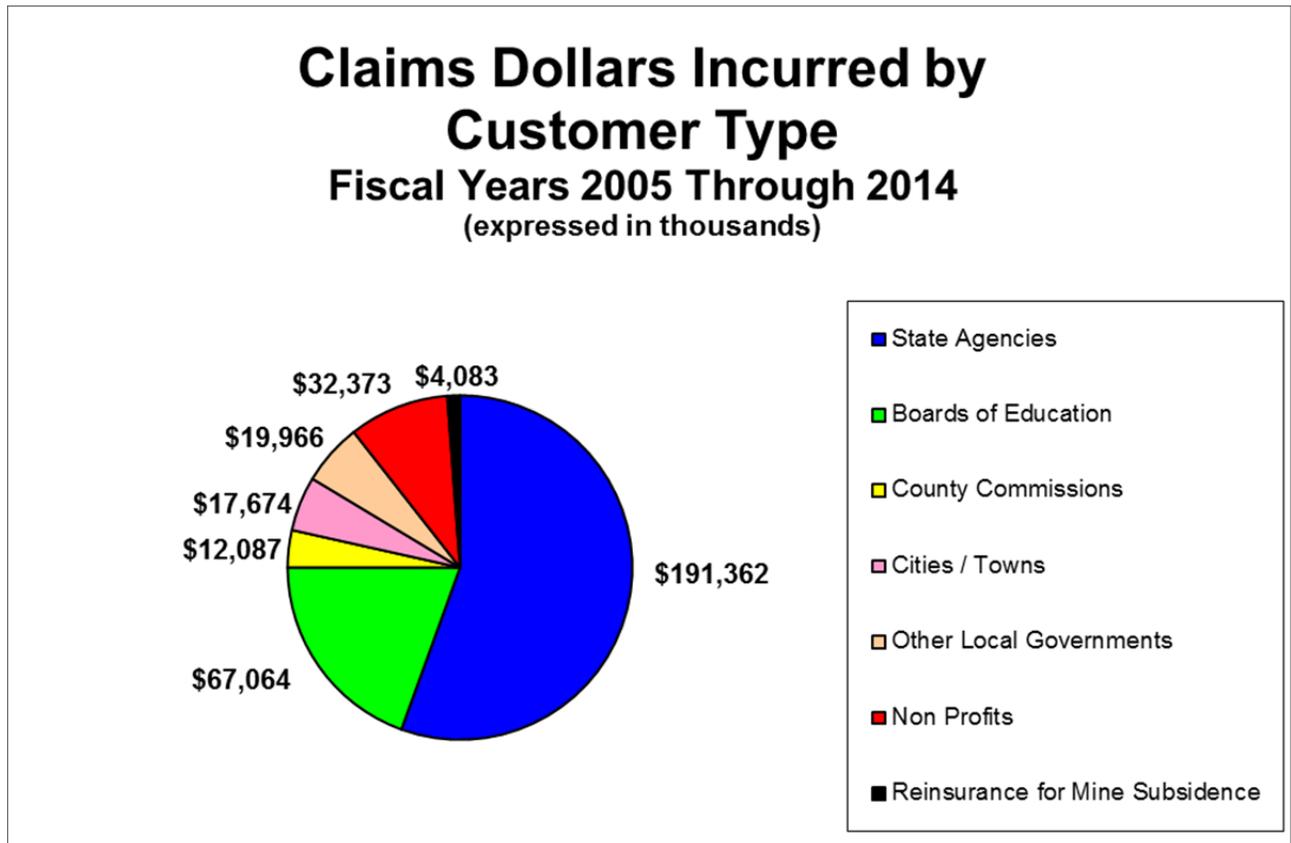
**SCHEDULE 7**
**Full-time Equivalent Employees as of Fiscal Year-End\***

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Administration	2	2	2	2	2	2	2	2	2	3
Finance	3	3	3	3	3	3	3	3	3	3
Claims	5	5	5	5	5	5	5	5	5	6
Underwriting	5	5	5	6	6	6	5	6	6	6
Loss Control	3	3	4	6	6	4	4	6	5	4
Information Systems	2	2	2	2	2	2	2	2	2	2
Medical Professional			--	--	--	--	--	--	--	--
<b>Total Employees</b>	<b>20</b>	<b>20</b>	<b>21</b>	<b>24</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>24</b>

\* 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.

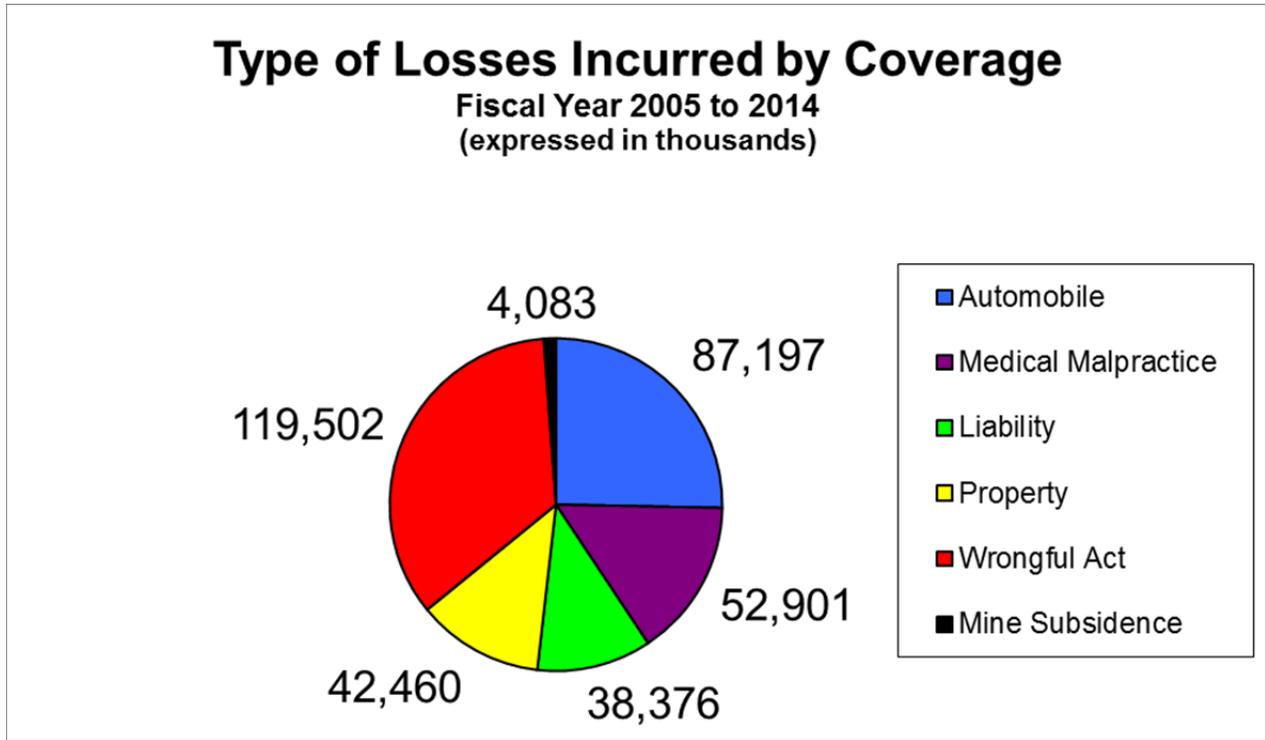
Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

## 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.

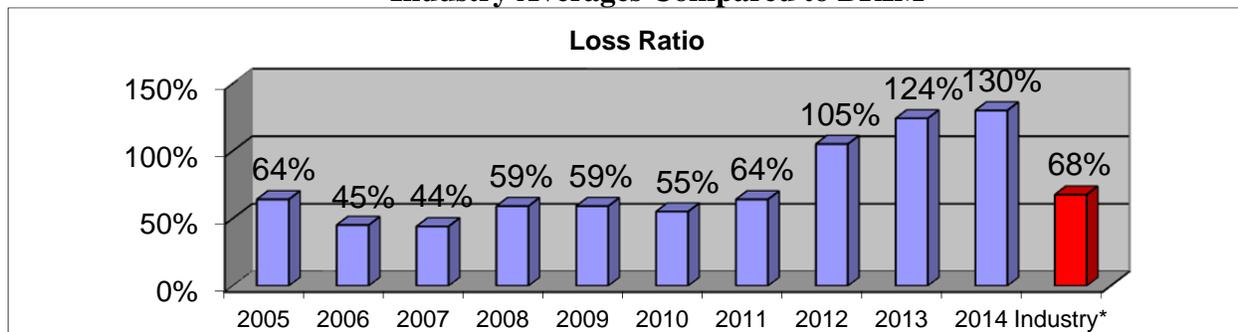
**Wrongful acts** generally fall in the personal injury area and refer to things such as alleged employment discrimination, defamation, and civil rights' violations.

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

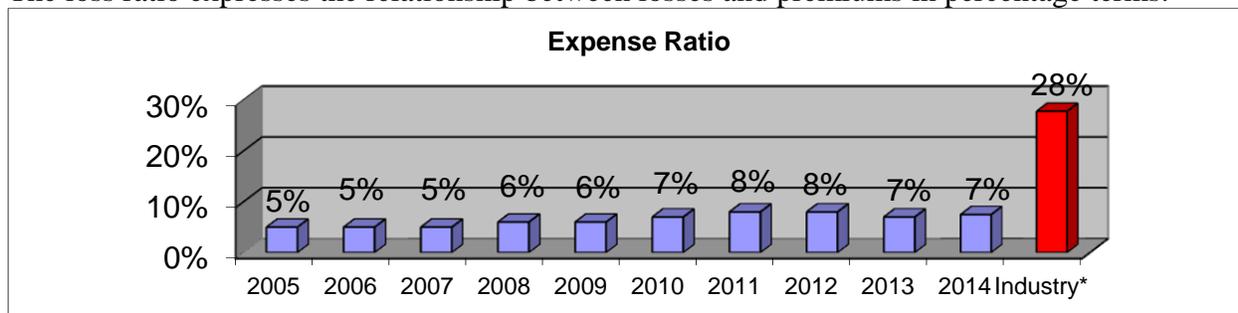
**Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.**

## SCHEDULE 10

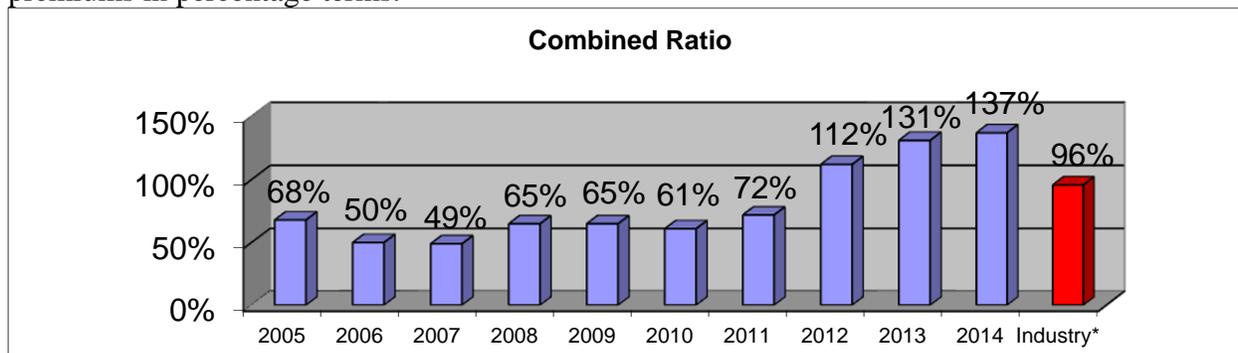
### Industry Averages Compared to BRIM



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.

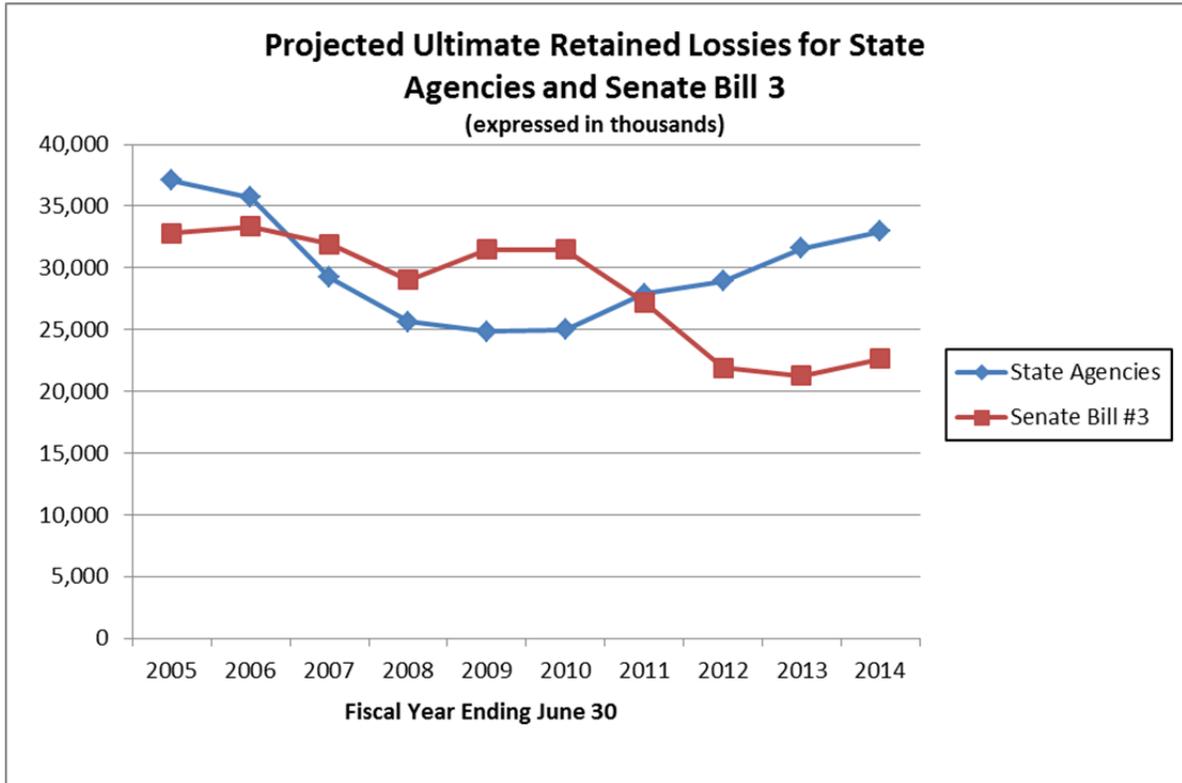


The combined ratio is used to measure underwriting performance. It is derived by adding the loss and expense ratio. A combined ratio below 100% indicates an underwriting profit and one above 100% indicates an underwriting loss.

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

\* **Source: Insurance Services Office**

## SCHEDULE 11



Fiscal Year	State Agencies	Senate Bill 3
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
2014	\$ 32,952	\$ 22,631

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, 2013 and 2014 show State Agencies increasing while Senate Bill 3 decreases further in 2011, 2012, 2013 with an increase in 2014 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 2014

<u>LIABILITY</u>	<u>LIMIT OF LIABILITY</u>
Automobile Liability Policy No.: CA 519-64-62 Company: National Union Fire Insurance Co.	\$ 1,000,000 per occurrence
General Liability Policy No.: GL 509-47-07 Company: National Union Fire Insurance Co.	\$ 1,000,000 per occurrence
Aircraft Liability Policy No.: AV003380147-11 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
<u>PROPERTY</u>	<u>LIMIT OF LIABILITY</u>
Blanket Property Policy No.: MAF760728-13 Company: Axis Insurance Company	\$ 25,000,000 primary layer 1,000,000 deductible
Policy No.: NHD382615 Company: RSUI	\$ 100,000,000 in excess of 25,000,000
Policy No.: YSP6157 Company: Atlantic Specialty	\$ 75,000,000 in excess of 125,000,000
Policy No.: MAF733355-13 Company: Axis	\$ 200,000,000 in excess of 200,000,000
Policy No.: MAF760729-13 Company: Axis Insurance Company	\$ 10,000,000 flood with 1,000,000 deductible
Boiler and Machinery Policy No.: FBP2280385 Company: Hartford Steam Boiler Company	\$ 5,000,000 per equipment covered in excess of 1,000,000
Public Insurance Official Position Schedule Bond Bond No.: 105609315 Company: Travelers	Variable amounts as set by Statute

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

