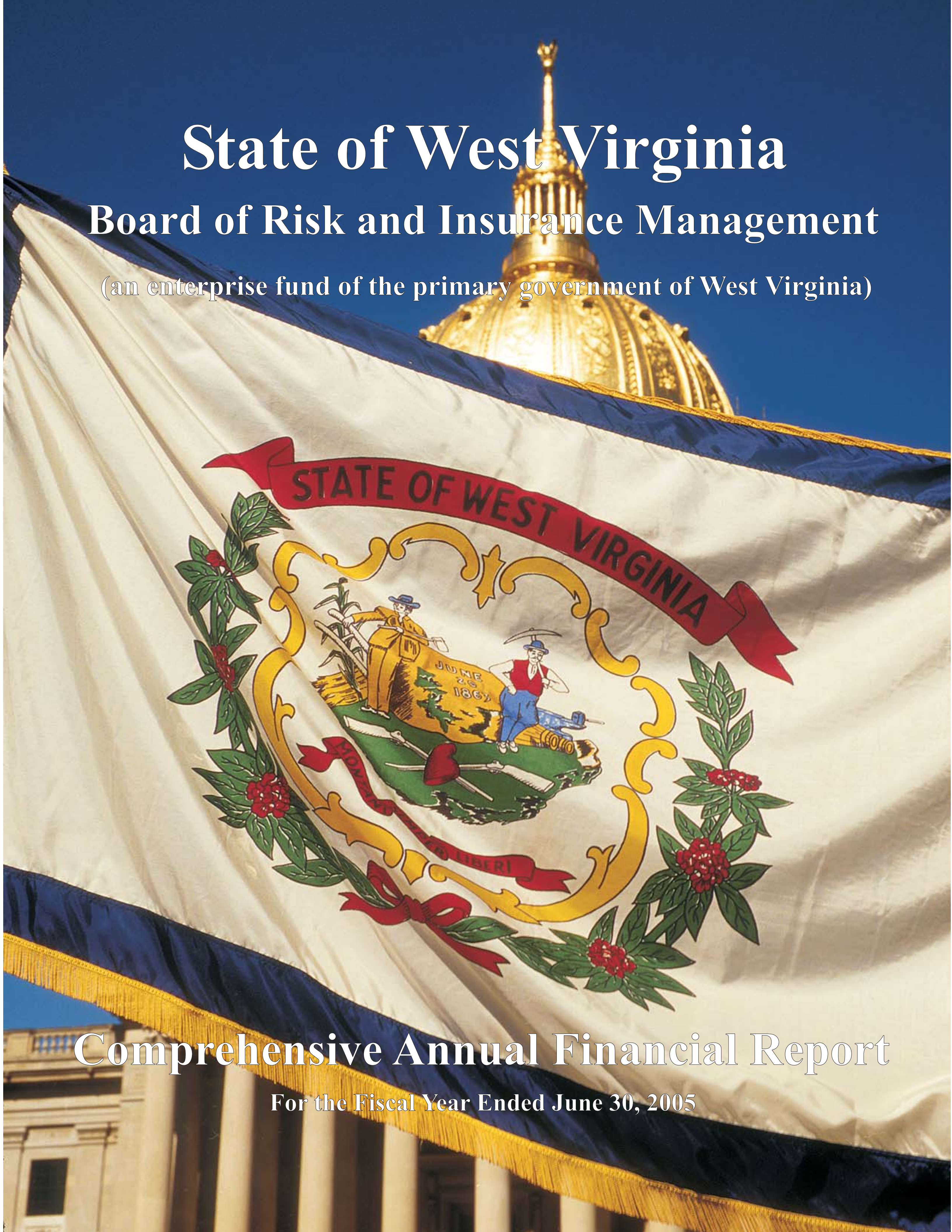
State of West Virginia

Board of Risk and Insurance Management

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



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

On the Cover – The West Virginia State Seal was designed by Joseph H. Diss DeBar in 1863. The seal depicts a farmer that stands to the right and a miner to the left of a large ivy-draped rock bearing the date of West Virginia's admission to the Union. Additionally, the seal has the state's motto of Montani Semper Liberi, which means "Mountaineers are Always Free". All photographs used in this report were courtesy of photographers Stephen Shaluta, Jr. and David Fattaleh, with the West Virginia Division of Tourism and Parks.

State of West Virginia

Board of Risk and Insurance Management

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

Joe Manchin III
Governor

Robert W. Ferguson, Jr.
Secretary Department of Administration

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

Prepared by
Sarah H. Long, CPA, Deputy Director and 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 Year Ended June 30, 2005

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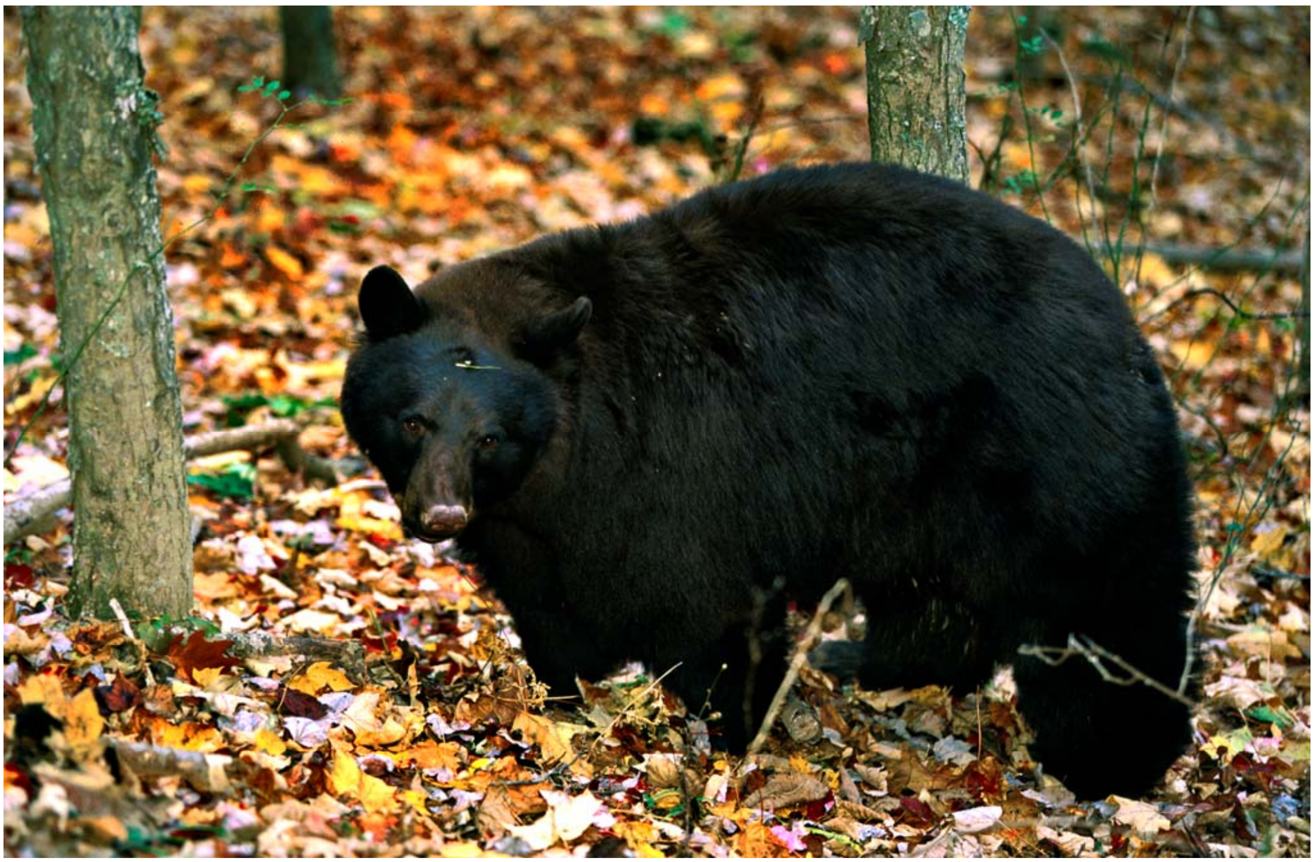


State Animal – The black bear was selected as official state animal by a poll of students, teachers and sportsmen in a poll conducted by the Department of Natural Resources in 1954 and adopted by the Legislature in 1973. The black bear is the only species found in the State of West Virginia

State of West Virginia
Board of Risk and Insurance Management

PRINCIPAL OFFICIALS

Joe Manchin III, Governor

Secretary of Department of Administration
Robert W. Ferguson, III

Board of Directors
John Lukens, Chairperson
Bruce Martin, Vice Chairperson
S.A. Cunningham, CPA, Member
Martin Glasser, Member
Dr. J. Michael Mullen, Member (Interim)

Executive Staff
Charles E. Jones, Jr., Executive Director
Sarah H. Long, CPA, Deputy Director, Chief Financial Officer

Formal Transmittal of Comprehensive Annual Financial Report (CAFR)

December 15, 2005

Honorable Joe Manchin III, 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, 2005, 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 CAFR is presented in three sections: introductory, financial and statistical. The introductory section contains this transmittal letter which includes discussions of the financial activities and highlights for the fiscal year, a list of the principal officials of BRIM, and BRIM's organizational chart. The financial section includes the basic financial statements and the independent auditors' report on such basic financial statements, as well as certain required supplementary information as described in more detail in the table of contents. Also included in the financial section is management's discussion and analysis (MD&A) which provides the reader a narrative introduction, overview, and further analysis of the financial information presented. The statistical section includes selected financial and statistical data.

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 accounting principles generally accepted in the United States. 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 currently total 150. 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 has approximately 1,300 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. BRIM still maintains the run-off of the hospital and facilities insured under this program, all of which were non-renewed as of June 30, 2004. See further discussion of House Bill 601 program in the MD&A section.

BRIM uses various means to cover its insureds. Liability claims are handled through a *Modified Paid Loss* retrospective rating program, which requires an up-front deposit to an insurance company. As losses occur, payments and reserves are established and charged against the deposit. When the amount of paid losses and expected paid losses for the next 12 months exceeds the deposit amount, a retrospective billing is produced and is due the insurance company by BRIM. BRIM is not indemnified by the insurance company, and the insurance company is compensated for claim handling by a negotiated fixed fee.

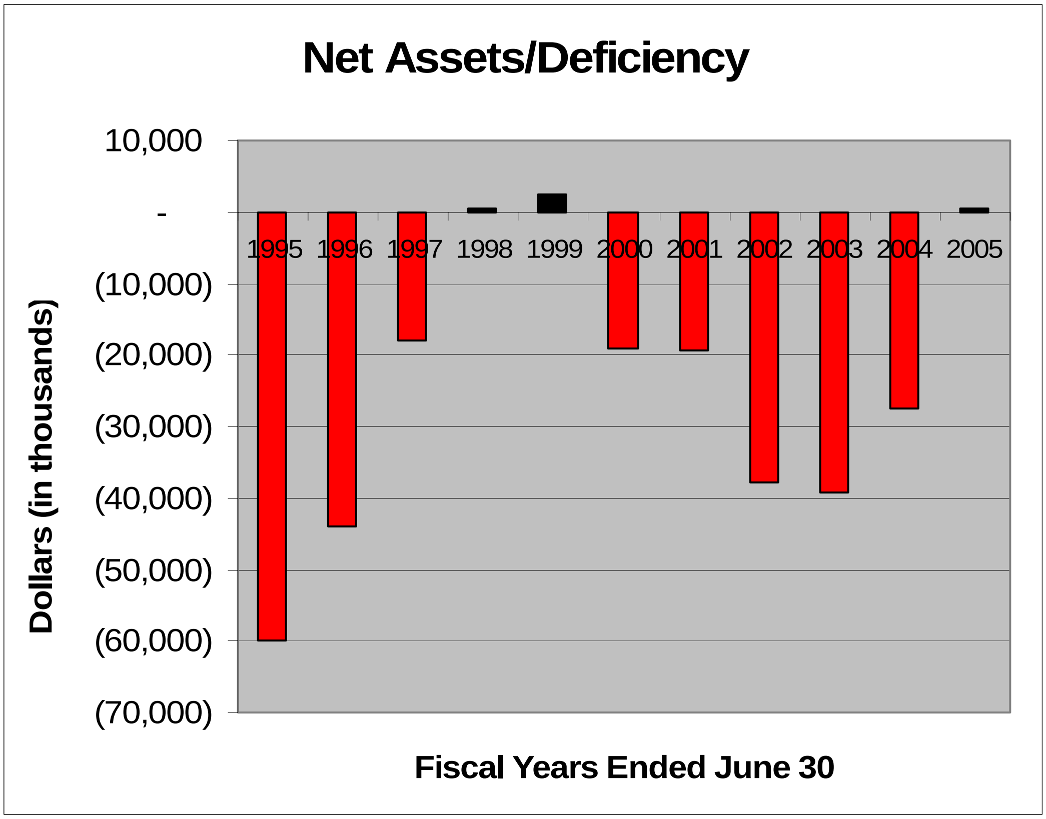
Property losses are retained by BRIM up to $1 million. Additional coverage is provided up to a limit of $200 million through various excess policies. This coverage provides reimbursement of loss at the stated or reported value less a $1,000 deductible. Under the mine subsidence program, ceding insurers pay BRIM a reinsurance premium. In exchange the ceding insurers are paid a commission for the business they placed with BRIM. BRIM's House Bill 601 program for private healthcare providers is a self-insured program and the claim and underwriting functions are outsourced to a third-party administrator.

ASSESSING BRIM'S FINANCIAL CONDITION

Deficiency in Net Assets

One of management's major goals has been to eliminate the net asset deficiency. As of June 30, 2005, BRIM has eliminated such deficiency reflecting $527,000 on the State of Net Assets. Management anticipates that net assets will continue to be positive and grow over the next few years. The deficiency in net assets developed due to several factors, including unanticipated losses and adverse loss development in state agency and Senate Bill 3 entity coverages for general liability and medical malpractice lines of business. Declining investment returns also were a contributing factor. In fiscal year 2004, management adopted a financial stability plan which has enabled the deficiency in net assets to be eliminated. For more detailed information on BRIM's deficiency in net assets, see the MD&A included in the financial section of this report.

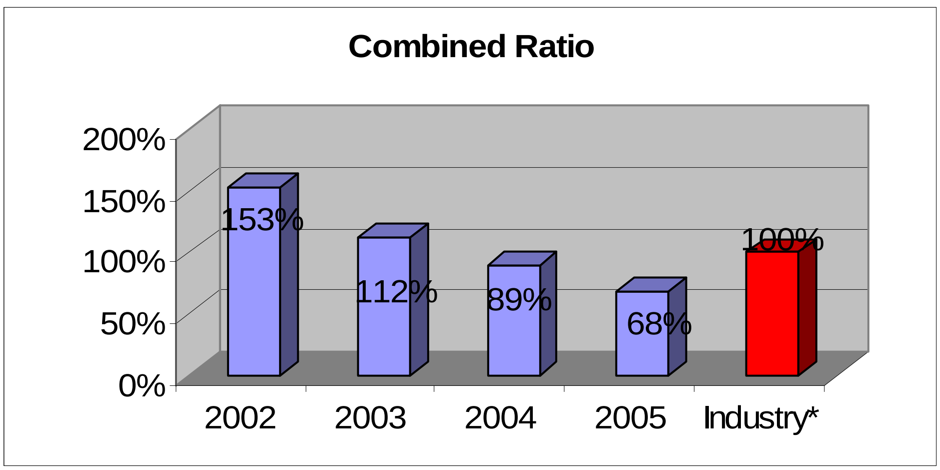
The chart below shows the net assets/deficiency for the past ten years. The years in black represent positive net assets and the years in red represent a net asset deficiency (or unfunded liability).



BRIM's improvement in operations is consistent with the commercial insurance industry as a whole. Recent Standard and Poor's Industry Surveys indicate that the primary trend in most property and casualty insurers is an upturn in premium rates and decline in losses.

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 2005 is below 100% and below the industry average. 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 market rate of 25%. This has enabled BRIM to keep this key financial ratio below the industry this year. Also, in fiscal year 2005, BRIM's loss ratio (claims expense divided by earned premiums) was favorable which lowered the combined ratio. The BRIM ratios are shown in the chart below in blue and the industry is in red.



*This industry data was obtained from Standard and Poor's Industry Surveys, Insurance: Property / Casualty, July 15, 2005.

Change in Investment Strategy

BRIM's investments are managed by the West Virginia Investment Management Board (WVIMB) by state code. BRIM's funds are maintained in accounts similar to money market funds with relatively low risk. During fiscal year 2004, BRIM and the WVIMB began working on a solution to maximize BRIM's investment returns, which have been falling the past few years. The WVIMB developed a suggested investment strategy with 20% in equities, 65% in fixed income securities and 15% in cash. This approach is similar to those used by commercial insurers. The anticipated yield on this investment mix is several points higher than the current rate of return earned by BRIM. This arrangement was finalized and the new investment account was established in the early part of fiscal year 2004. Investment earnings for 2005 were significantly higher than past years. Management believes this is a significant accomplishment that will enhance future financial condition.

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 or 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 accounting principles generally accepted in the United States. 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, 2005. 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, 2004. This was the ninth consecutive year that BRIM has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit 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

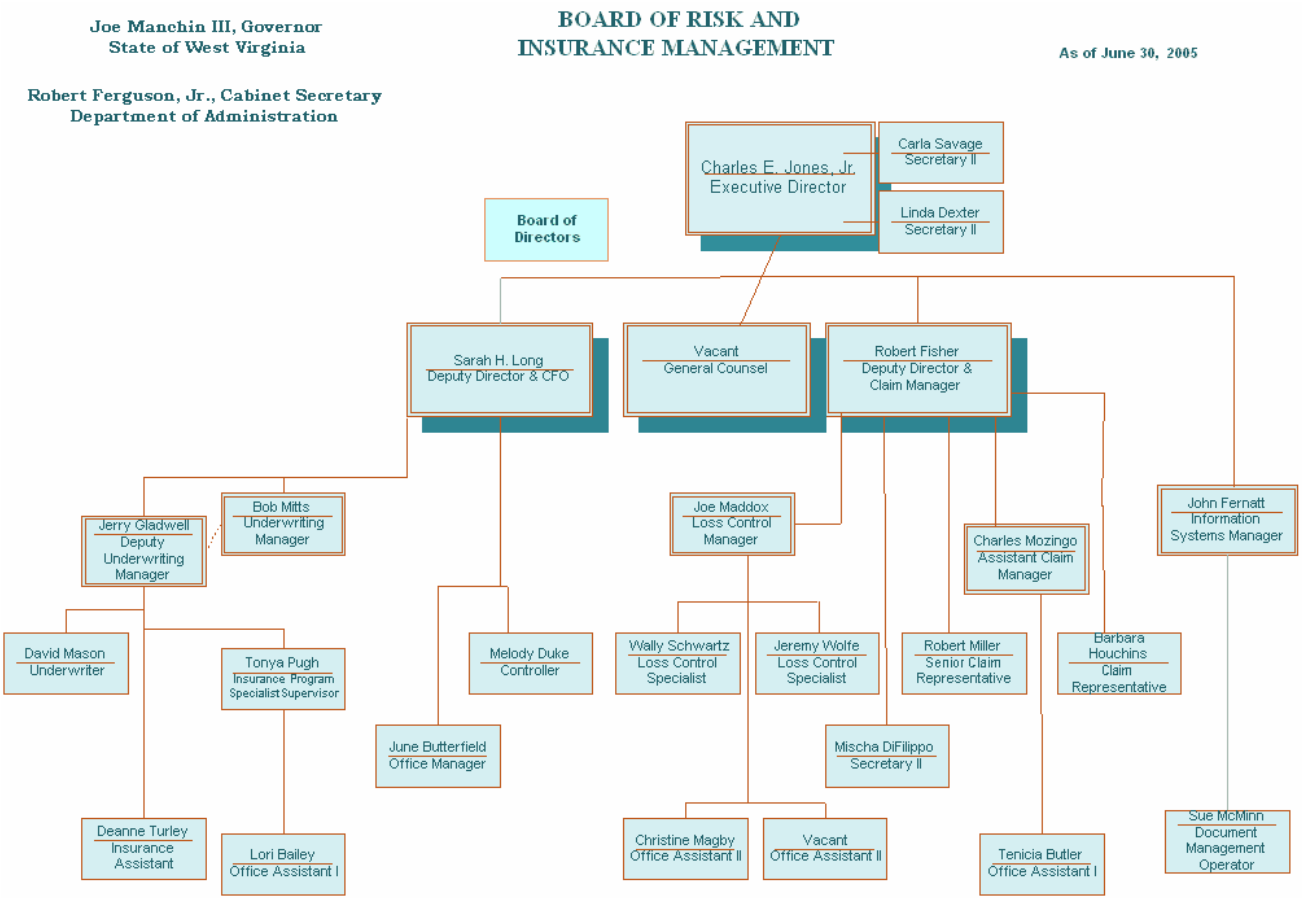
BRIM would like to thank the Governor, the Legislature, the Cabinet Secretary of Administration, and the Board of Directors of BRIM for their support and leadership.

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

Respectfully, we hereby submit the West Virginia Board of Risk and Insurance Management Comprehensive Annual Financial Report for the year ended June 30, 2005.

Sincerely,

Sarah H. Long, CPA
Deputy Director and Chief Financial Officer



Joe Manchin III, Governor
State of West Virginia
Robert Ferguson, Jr., Cabinet Secretary
Department of Administration
BOARD OF RISK AND INSURANCE MANAGEMENT
As of June 30, 2005
Charles E. Jones, Jr. Executive Director
Carla Savage Secretary II
Linda Dexter Secretary II
Board of Directors
Sarah H. Long Deputy Director & CFO
Vacant General Counsel
Robert Fisher Deputy Director & Claim Manager
Jerry Gladwell Deputy Underwriting Manager
Bob Mitts Underwriting Manager
Joe Maddox Loss Control Manager
Charles Mozingo Assistant Claim Manager
John Fernatt Information Systems Manager
David Mason Underwriter
Tonya Pugh Insurance Program Specialist Supervisor
Melody Duke Controller
Wally Schwartz Loss Control Specialist
Jeremy Wolfe Loss Control Specialist
Robert Miller Senior Claim Representative
Barbara Houchins Claim Representative
June Butterfield Office Manager
Mischa DiFilippo Secretary II
Deanne Turley Insurance Assistant
Lori Bailey Office Assistant I
Christine Magby Office Assistant II
Vacant Office Assistant II
Tenicia Butler Office Assistant I
Sue McMinn Document Management Operator

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, 2004

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

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director


STATE OF WEST VIRGINIA
JUNE 20 1863
MONTANI SEMPER LIBERI

Financial Section

State Flower – The rhododendron maximum was made the official State Flower on January 29, 1903 following a recommendation by the Governor and a vote of students of public schools. It is recognized by its large evergreen leaves and delicate pale pink or white bloom.

Ernst & Young LLP
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Charleston, West Virginia 25330

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www.ey.com

Report of Independent Auditors

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

We have audited the accompanying statements of net assets of the West Virginia Board of Risk and Insurance Management (BRIM) (an enterprise fund of the State of West Virginia) as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BRIM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements present only BRIM and do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2005 and 2004, and the changes in the financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRIM (an enterprise fund of the State of West Virginia) at June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in 2005, BRIM adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2005, on our consideration of BRIM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 2005 audit.

Management's discussion and analysis on pages 16 through 23 and the unaudited supplemental schedules of Ten-Year Claims Development Information on page 52 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management discussion and analysis on pages 16 through 23 and the Ten-Year Claims Development Information on page 52 and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract on page 53, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on 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 data included in the introductory and statistical sections of this report 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.

Ernst + Young LLP

September 23, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Management of the West Virginia Board of Risk and Insurance Management (BRIM) provides this Management Discussion and Analysis for readers of BRIM's financial statements. This narrative overview of the financial activities of BRIM is for the years ended June 30, 2005, 2004, and 2003. BRIM provides property and casualty insurance to State of West Virginia (the State) agencies and Senate Bill 3 entities (SB3), 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. Beginning in December 2001, BRIM's program was expanded to include providing medical malpractice insurance to private sector healthcare providers (referred to hereafter as the House Bill 601 Program). The physicians in the program novated to a private physicians' mutual on July 1, 2004. 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 accounting principles generally accepted in the United States (GAAP) for governmental entities. The three basic financial statements presented are as follows:

- *Statement of Net Assets*—This statement presents information reflecting BRIM's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.

- *Statement of Revenues, Expenses and Changes in Net Assets*—This statement reflects the operating and nonoperating revenues and expenses for the operating year. Operating revenues primarily consist of premium income with major sources of operating expenses being claims loss and loss adjustment expense and general and administrative expenses. Nonoperating revenues primarily consist of investment income and appropriations from the State.

- *Statement of Cash Flows*—The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, noncapital financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

FINANCIAL HIGHLIGHTS

The following tables summarize the financial position and the results of operations as of and for the years ended June 30, 2005, 2004, and 2003 (in thousands).

	2005	2004	2003	Change 2005-2004 Amount	Change 2005-2004 Percent	Change 2004-2003 Amount	Change 2004-2003 Percent
Cash	$ 55,377	$ 80,989	$ 16,620	$ (25,612)	(32)%	$ 64,369	387 %
Investments	–	1,866	9,077	(1,866)	(100)	(7,211)	(79)
Advance deposits with carrier	41,875	46,513	46,361	(4,638)	(10)	152	–
Receivables	591	11,556	30,563	(10,965)	(95)	(19,007)	(62)
Total current assets	97,843	140,924	102,621	(43,081)	(31)	38,303	37
Noncurrent investments	101,840	83,779	90,642	18,061	22	(6,863)	(8)
Total assets	199,683	224,703	193,263	(25,020)	(11)	31,440	16
Estimated claim expense	50,362	60,148	52,351	(9,786)	(16)	7,797	15
Unearned premiums	10,991	28,113	20,542	(17,122)	(61)	7,571	37
Agent commissions payable	2,080	2,470	1,761	(390)	(16)	709	40
Accrued expenses	849	1,982	1,262	(1,133)	(57)	720	57
Due to primary government	–	–	24,500	–	–	(24,500)	(100)
Total current liabilities	64,282	92,713	100,416	(28,431)	(31)	(7,703)	(8)
Estimated claim expenses	134,707	159,180	131,936	(24,473)	(15)	27,244	21
Compensated absences	167	196	157	(29)	(15)	39	25
Total noncurrent liabilities	134,874	159,376	132,093	(24,502)	(15)	27,283	21
Total liabilities	199,156	252,089	232,509	(52,933)	(21)	19,580	8
Net assets (deficiency):							
Restricted	20,530	21,939	16,829	(1,409)	(6)	5,110	30
Unrestricted	(20,003)	(49,325)	(56,075)	29,322	59	6,750	12
Net assets (deficiency)	$ 527	$ (27,386)	$ (39,246)	$ 27,913	(102)	$ 11,860	(30)

	2005	2004	2003	Change 2005-2004 Amount	Change 2005-2004 Percent	Change 2004-2003 Amount	Change 2004-2003 Percent
Premiums	$ 89,030	$ 109,268	$ 76,488	$ (20,238)	(19)%	$ 32,780	43%
Less excess coverage	(3,912)	(3,801)	(3,126)	(111)	3	(675)	22
Net operating revenues	85,118	105,467	73,362	(20,349)	(19)	32,105	44
Claims and claims adjustment expense	56,675	86,122	77,231	(29,447)	(34)	8,891	12
General and administrative	4,294	10,536	5,360	(6,242)	(59)	5,176	97
Total operating expenses	60,969	96,658	82,591	(35,689)	(37)	14,067	17
Operating income (loss)	24,149	8,809	(9,229)	15,340	174	18,038	(195)
Nonoperating revenues (expenses):							
Investment income	6,306	1,011	4,962	5,295	524	(3,951)	(80)
Financing income	40	98	45	(58)	(59)	53	118
Appropriations from the State	2,000	1,942	2,910	58	3	(968)	(33)
Transfer to WVPMIC	(4,582)	–	–	(4,582)	100	–	–
Total nonoperating revenues, net	3,764	3,051	7,917	713	23	(4,866)	(61)
Changes in net assets	27,913	11,860	(1,312)	16,053	135	13,172	(1,004)
Total net assets – beginning	(27,386)	(39,246)	(37,934)	11,860	(30)	(1,312)	3
Total net assets – ending	$ 527	$ (27,386)	$ (39,246)	$ 27,913	(102)	$ 11,860	30
Total revenues	$ 93,464	$ 108,518	$ 81,279	$ (15,054)	(14)	$ 27,239	34
Total expenses	$ 65,551	$ 96,658	$ 82,591	$ (31,107)	(32)	$ 14,067	17

FINANCIAL HIGHLIGHTS

- Total assets decreased $25,020,000 from 2004 to 2005 and increased $31,440,000 from 2003 to 2004. The decrease from 2004 to 2005 primarily reflects the decrease in cash and investments relating to the novation to the private physicians' mutual company. The increase from 2003 to 2004 was caused by the increased cash and investments relating to the House Bill 601 Program and the related $24,000,000 receivable from the State in 2003.

- Total liabilities increased $19,580,000 from 2003 to 2004 and decreased $52,933,000 from 2004 to 2005. This relates primarily to fluctuations in the estimated unpaid claims and claims adjustment expense and unearned premiums. When the House Bill 601 Program expanded in 2004, these amounts increased significantly. In 2005, when the program novated, the estimated claim liability and unearned premium obligations decreased. The estimated claim liability also decreased significantly in the state medical malpractice program from 2004 to 2005. In addition, a due to primary government of $24,000,000 to the State related to the House Bill 601 Program increased liabilities in 2003. Total current liabilities are $64,282,000, $92,713,000 and $100,416,000 and noncurrent liabilities are $134,874,000, $159,376,000 and $132,093,000 at June 30, 2005, 2004, and 2003, respectively.

- The total net assets for 2005 are $527,000 as compared to 2004's deficiency of $(27,386,000), reflecting a $27,913,000 increase in net assets. The net asset deficiency in 2003 was $(39,246,000). Restricted net assets of $20,530,000, $21,939,000, and $16,829,000 at June 30, 2005, 2004, and 2003, respectively, relate to mine subsidence coverage provided to the general public based on restrictions provided in the State Code.

- Total net operating revenues increased from $73,362,000 to $105,467,000 from 2003 to 2004 due to the addition of the House Bill 601 Program. Total net operating revenues decreased from $105,467,000 to $85,118,000 from 2004 to 2005 due to the novation of the physician program to the private physicians' mutual.

- Total operating expense increased from $82,591,000 in 2003 to $96,658,000 in 2004 primarily due to significant increases in claims and claims adjudication expense, as well as third-party administrative fees included in general and administrative expenses related to the House Bill 601 program. The significant decrease from $96,658,000 in 2004 to $60,969,000 in 2005 relates to the novation of the physicians' mutual and the removal of these expenses.

- Nonoperating revenues have fluctuated in the past three years. There was a $4,866,000 decrease from 2003 to 2004 and a $5,295,000 increase from 2004 to 2005. These fluctuations are primarily related to investment returns.

- In 2005, in conjunction with the novation of the House Bill 601 Program a nonoperating distribution of $4,582,000 was made to the newly formed physicians' mutual company.

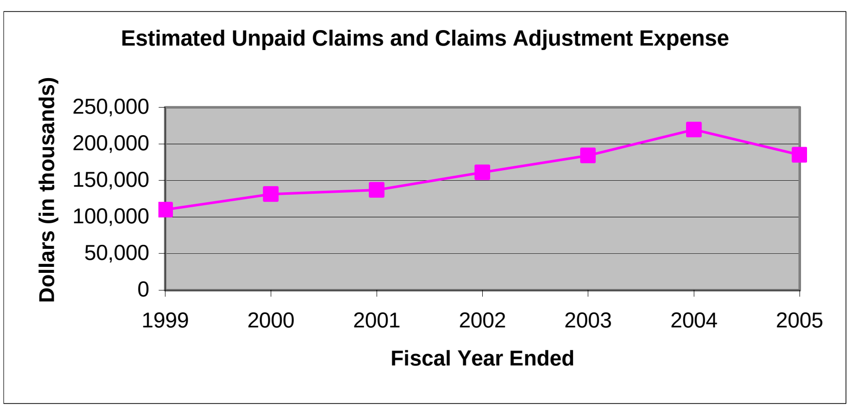
- Total revenues and total expenses from 2003 to 2004 and from 2004 to 2005 have primarily fluctuated due to activity related to the House Bill 601 Program related activity and novation to the physicians' mutual, along with the change in investment market returns. See above explanations for more details.

OVERALL ANALYSIS

The overall condition of BRIM has improved from the prior year. Proper premium assessments, increased investment earnings, aggressive risk management, and reductions in the estimated claim liability have allowed BRIM to eliminate the prior year deficiency in net assets, reflecting net assets of $527,000 at June 30, 2005. BRIM has implemented and is strictly adhering to a comprehensive financial stability plan.

Unpaid Claims Liability

BRIM's most significant number on its statements of net assets is the liability for estimated unpaid claims and claims adjustment expense. This liability consists of two parts: claims that BRIM is aware of which have been reserved and incurred but not reported (IBNR) claims, which are projected by an independent actuary. From fiscal year 2004 to 2005, the liability for unpaid claims decreased from $219,328,000 to $185,069,000. This decrease is primarily a result of the House Bill 601 Program, which novated to a private mutual insurance company on July 1, 2004. The liability reserve for this program alone was $43,000,000 in 2004. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 1999 through 2005.



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 healthcare providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies' nonrenewing insurance policies for healthcare providers on a national level and in the State.

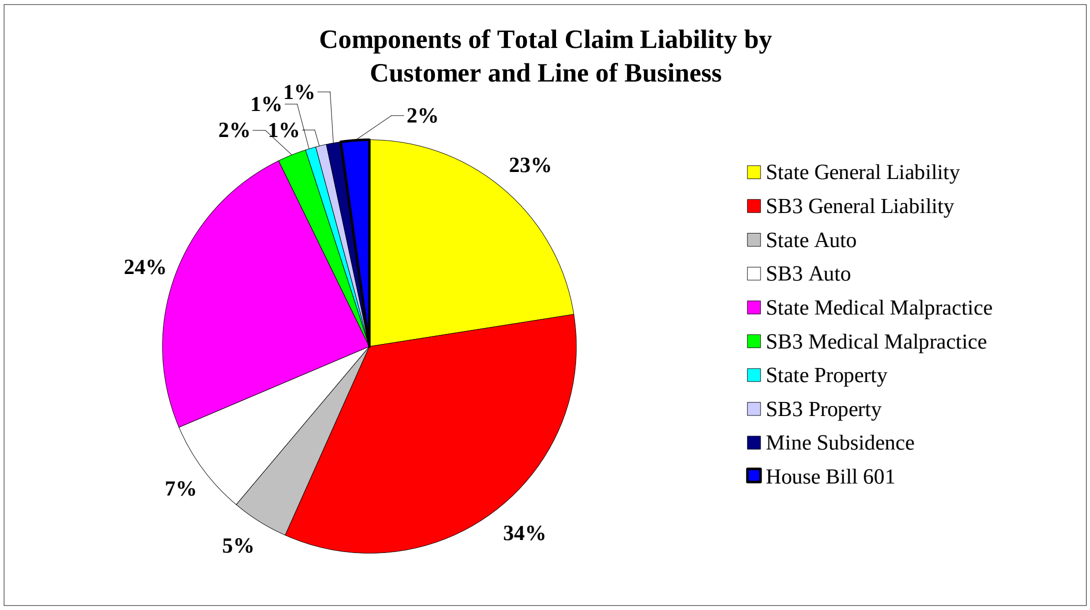
During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for BRIM's insured physicians to novate into a physician's mutual. On July 1, 2004, House Bill 601 physicians were novated to the West Virginia Physicians' Mutual Insurance Company (WVPMIC). The hospitals and clinics that did not novate were nonrenewed by BRIM prior to June 30, 2004. The program is in "run off" 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 insureds in House Bill 601. This tail coverage covers the insured on any (IBNR) claims during the policy period.

The State committed to providing the WVPMIC a $24,000,000 capital loan. This loan was initially appropriated to BRIM during fiscal year 2003. BRIM transferred the cash and the related liability as part of the novation of the House Bill 601 physicians to the WVPMIC on June 30, 2004. On July 1, 2004, an additional $36,000,000 was transferred to the WVPMIC. The remaining net assets were transferred to WVPMIC in the fall of 2004.

Results by Line of Business for BRIM

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

The following chart shows the breakdown by customer and line of business of the total estimated claim liability number, which is $185,069,000. 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.



During fiscal year 2004, BRIM repaid a loan of $500,000 provided by the West Virginia Legislature to assist with the startup costs of the House Bill 601 Program. The $24,000,000 loan and the related cash that was granted to BRIM by the West Virginia Legislature were transferred to WVPMIC on June 30, 2004, in accordance with State Code.

There was no long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Management's Plan to Address the Net Assets Deficiency by Line of Business

During the past three years, BRIM has made tremendous efforts to eliminate its deficiency in net assest. The 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 has followed and will continue to follow to continue to increase net assets until all lines of business are solvent independently.

Risk Management

BRIM has advanced an aggressive risk management plan during the past three years to address the significant losses that have occurred. Processes are in place to allow for better organization and for proper documentation of activities. BRIM has been working on ways to increase and improve communications, both within the agency and with its customers, and has been promoting interaction within the agency with regard to loss control utilization. In conjunction with the underwriting department, a system of credits and surcharges are in place, based on loss control efforts and cooperation, or lack thereof, on the part of BRIM's insureds.

Increased Investment Return

During fiscal year 2005, BRIM moved approximately $40,000,000 into a low-risk, high-interest bearing-account with the West Virginia Investment Management Board (WVIMB). The account is called the "short-term" fund. In the past, BRIM had most of its longer-term investments in another WVIMB account that was not performing as well as the short-term pool. Investment income has risen more than $5,000,000 in the past year, due in large part to the shift to this fund and overall improvement in the investment markets.

Premium Increases

BRIM has consistently increased premiums across all lines of business for the past several years. Charging proper premium increases, consistent with the commercial industry, has enabled BRIM to adequately cover losses. Further, fiscal year 2005 showed signs of favorable loss trends, which BRIM hopes will continue.

REQUESTS FOR INFORMATION

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

West Virginia Board of Risk and Insurance Management

Statements of Net Assets

	June 30	
	2005	**2004**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 48,958**	$ 23,786
Investments	**–**	1,866
Advance deposits with insurance company	**41,875**	46,513
Receivables:		
Premiums due from state agencies	**315**	324
Premiums due from other entities	**382**	442
Other	**218**	554
Less allowance for doubtful accounts	**(696)**	(701)
Net receivables	**219**	619
Restricted cash and cash equivalents	**6,419**	57,203
Restricted receivables:		
Premiums due from other entities	**498**	11,099
Less allowance for doubtful accounts	**(126)**	(162)
Net restricted receivables	**372**	10,937
Total current assets	**97,843**	140,924
Noncurrent assets:		
Investments	**81,423**	66,869
Restricted investments	**20,417**	16,910
Total noncurrent assets	**101,840**	83,779
Total assets	**199,683**	224,703
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	**50,362**	60,148
Unearned premiums	**10,991**	28,113
Agent commissions payable	**2,080**	2,470
Accrued expenses and other liabilities	**849**	1,982
Total current liabilities	**64,282**	92,713
Estimated unpaid claims and claims adjustment expense, net of current portion	**134,707**	159,180
Compensated absences	**167**	196
Total noncurrent liabilities	**134,874**	159,376
Total liabilities	**199,156**	252,089
Net assets (deficiency):		
Restricted	**20,530**	21,939
Unrestricted	**(20,003)**	(49,325)
Net assets (deficiency)	**$ 527**	$ (27,386)

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses and Changes in Net Assets

	Years Ended June 30	
	2005	**2004**
	(In Thousands)	
Operating revenues		
Premiums	**$ 89,030**	$ 109,268
Less excess coverage/reinsurance premiums	**(3,912)**	(3,801)
Net operating revenues	**85,118**	105,467
Operating expenses		
Claims and claims adjustment expense	**56,675**	86,122
General and administrative	**4,294**	10,536
Total operating expenses	**60,969**	96,658
Operating income	**24,149**	8,809
Nonoperating revenues (expenses)		
Investment income	**6,306**	1,011
Financing income	**40**	98
Appropriations from State of West Virginia	**2,000**	1,942
Distribution to Physicians' Mutual	**(4,582)**	–
Net nonoperating revenues	**3,764**	3,051
Changes in net asset deficiency	**27,913**	11,860
Total net asset deficiency, beginning of year	**(27,386)**	(39,246)
Total net asset deficiency, ending of year	**$ 527**	$ (27,386)

See accompanying notes.

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows

	Years Ended June 30	
	2005	**2004**
	(In Thousands)	
Operating activities		
Receipts from customers	**$ 86,758**	$ 108,074
Payments to employees	**(1,260)**	(1,296)
Payments to suppliers	**(2,642)**	(7,803)
Payments to claimants	**(58,251)**	(51,081)
Deposits to advance deposit with insurance company	**(48,129)**	(41,018)
Withdrawals from advance deposit with insurance company	**52,767**	40,868
Net cash provided by operating activities	**29,243**	47,744
Noncapital financing activities		
Appropriations from State of West Virginia	**2,000**	1,942
Receipt of State funds to be distributed to WVPMIC	**–**	24,000
Distribution of funds to WVPMIC	**(47,007)**	(24,000)
Payments on loan	**–**	(500)
Financing earnings	**40**	98
Net cash (used in) provided by noncapital financing activities	**(44,967)**	1,540
Investing activities		
Purchase of investments	**(212,714)**	(43,854)
Sale of investments	**200,355**	53,981
Net investment earnings	**2,471**	4,958
Net cash (used in) provided by investing activities	**(9,888)**	15,085
Net (decrease) increase in cash and cash equivalents	**(25,612)**	64,369
Cash and cash equivalents, beginning of year	**80,989**	16,620
Cash and cash equivalents, end of year	**$ 55,377**	$ 80,989
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 48,958**	$ 23,786
Restricted cash and cash equivalents	**6,419**	57,203
	$ 55,377	$ 80,989

West Virginia Board of Risk and Insurance Management

Statement of Cash Flows (continued)

	Years Ended June 30	
	2005	**2004**
	(In Thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 24,149**	$ 8,809
Adjustments to reconcile operating income to cash (used in) provided by operating activities		
Decrease (increase) in advanced deposits	**4,638**	(152)
Decrease (increase) in premiums receivable, net	**401**	(4,993)
(Decrease) increase in estimated liability for unpaid claims and claims adjustment expense	**(1,576)**	35,041
Increase in other liabilities	**247**	1,468
Increase in unearned premiums	**1,384**	7,571
Total adjustments	**5,094**	38,935
Net cash provided by operating activities	**$ 29,243**	$ 47,744
Noncash investing activities		
Increase (decrease) in fair value of investments	**$ 6,944**	$ (4,612)

See accompanying notes.

1. General

The West Virginia Board of Risk and Insurance Management (BRIM) was established in 1957 to provide for the development of the State of West Virginia's (the State and primary government) property and liability self-insurance program. Approximately 146 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 No. 3 (SB3) was enacted, allowing local governmental entities and nonprofit organizations to participate in the entire program. There are approximately 1,187 such entities participating in the program. In 1982, legislation was also enacted requiring BRIM to establish and administer a coal mine subsidence reinsurance program which makes available to the general public dwelling insurance covering damage up to a specific maximum caused by the collapse of underground coal mines.

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

BRIM uses a "modified" paid retrospective rating plan for its liability insurance program. Under the current plan, BRIM pays a "premium" deposit to an insurance company to fund initial losses. As claims are reported, they are paid from the cash reserves established by the premium deposit. When paid losses exceed the amount of the "premium" deposit, BRIM pays the insurance company 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 that are made during the year. Therefore, the "premiums" paid by BRIM are deposit 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 is limited to $25,000 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 is limited to $100,000 per occurrence. From July 1, 1982 through June 30, 1985, the liability coverage provided by BRIM was limited to $6,000,000 per occurrence. Since July 1, 1985, the

1. General (continued)

liability coverage provided by BRIM is limited to $1,000,000 indemnity per occurrence. In addition, the county boards of education are covered by an excess insurance policy providing up to $5,000,000 of coverage in excess of the underlying $1,000,000 limit. These limits only apply to incurred indemnity claim losses. BRIM pays all allocated loss adjustment expenses (ALAE), which are the costs incurred in the reporting, investigation, adjustment, defense, and settlement of claims that are attributable to a specific, individual claim.

Prior to July 1, 1990, BRIM retained the first $25,000 of loss per event on property insurance claims. Losses in excess of $25,000 per event were also retained within an annual aggregate limit. From July 1, 1990 through June 30, 1991, the exposure retained by BRIM was $1,000,000 per event. From July 1, 1991 through June 30, 1996, the exposure retained by BRIM was $2,000,000 per event. Since July 1, 1996, the exposure retained by BRIM is $1,000,000 per event. BRIM has obtained excess coverage, through insurance companies, covering losses in excess of $1,000,000 up to $200,000,000 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 $50,000 to $75,000 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 healthcare providers (the House Bill 601 Program). This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies nonrenewing insurance policies for healthcare providers on a national level and in the State. BRIM's coverage is provided to healthcare providers in the State only if the providers attest that they have been unable to obtain coverage in the commercial market. The premiums quoted by BRIM must be at least as high any insurer with at least 5% of the market in the State on file with the West Virginia Insurance Commissioner's Office. If there is no insurer with at least 5% of the market, then BRIM's rates are not subject to this provision. On July 1, 2004, all physicians novated to the newly formed West Virginia Physician's Mutual Insurance Company (WVPMIC). BRIM still maintains the hospital and facilities in the House Bill 601 Program that did not novate to WVPMIC. However, all policies have been terminated as of June 30, 2004, and the program is in runoff mode only for existing clams and for any claims that may be submitted on any tail policies that were purchased.

1. General (continued)

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 will provide relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several liability. BRIM will serve as third-party administrator for this fund. The capitalization of the fund will come from the State's tobacco settlement fund. The activity for this fund is not reflected in BRIM's financial statements. 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 accounting principles generally accepted in the United States (GAAP). Expenditures related to the general revenue appropriation amount are monitored by the State's budgetary review process in total on an unclassified basis. Each year's appropriation lapses at yearend. The remaining operations of BRIM are subject to a nonappropriated budgetary review process.

1. General (continued)

GAAP defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable or other organizations for which the nature and significance of their relationship with the State's financial statements would cause them to be misleading. BRIM has considered whether it has any component units as defined by GAAP and has determined that no such organizations meet the criteria set forth above.

2. Summary of Significant Accounting Policies

Basis of Accounting

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. As permitted by the statement, BRIM has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

The financial statements of BRIM are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of BRIM. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

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 Investment Management Board (WVIMB). The WVIMB is governed by a 13-member board of trustees appointed by the Governor. Such funds are available to BRIM with overnight notice. Interest income from these investments is prorated to BRIM at rates specified by the WVIMB 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 WVIMB, which approximate estimated fair value, was $50,541,000 and $75,787,000 at June 30, 2005 and 2004, respectively. Such amounts are exempt from GASB Statement No. 3 risk classification.

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 healthcare providers) based on restrictions provided in the State Code.

Advance Deposits With Insurance Company

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.

Investments

BRIM invests in certain 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

2. Summary of Significant Accounting Policies (continued)

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. Such amounts are uncategorized under GASB Statement No. 3.

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 healthcare providers) based on restrictions provided in the State Code.

Compensated Absences, Including Postretirement Benefits

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 postretirement healthcare coverage through the Public Employees Insurance Agency or be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System (PERS).

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs). This OPEB obligation will need to be actuarially determined; an actuarially determined contribution (ARC) in accordance with the GASB requirements will be required, an OPEB obligation and related expense will need to be recorded, and there will be additional disclosures. Management has not completed the complex analysis that will be required to comply with the new standards which will not be effective for BRIM until 2007. Based on BRIM's current level of employees, BRIM does not anticipate the adoption of the new standard to be material to BRIM's financial statements.

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 prior to June 30, 2005, actuarial projections of loss development of IBNR claims, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses (and estimates

2. Summary of Significant Accounting Policies (continued)

of expected 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 asset 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 5% discount rate.

Receivables and Premium Income

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

2. Summary of Significant Accounting Policies (continued)

Unearned Premiums

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

Restricted Net Assets

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

3. Investments

BRIM is mandated by statute to have their cash and investments managed by the WVIMB. 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. As of June 30, 2005, BRIM participated in WVIMB's cash liquidity pool and in an account specifically designed by WVIMB to meet BRIM's longer-term cash flow needs termed the "Board of Risk and Insurance Management Fund."

In 2005, BRIM adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with investments. Such disclosures required by GASB Statement No. 40 are reflected in this Note 3, to the financial statements.

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.

3. Investments (continued)

Investment Objectives

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

Asset Allocation

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

Asset Class	Policy Target
Domestic large cap equity	8%
Domestic non-large cap equity	6%
International equity	6%
Total equity	20%
Domestic fixed income	80%
Cash and cash equivalents	0%

	June 30 2005 Asset Value *(In Thousands)*
Asset allocation (actual)	
Domestic large cap equity	$ 8,360
Domestic non-large cap equity	5,519
International equity	9,276
International nonqualified	477
Fixed income	46,981
Fixed income nonqualified cash liquidity pool	31,071
Short-term fixed income	156
Total	$ 101,840

3. Investments (continued)

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.

Asset Class Risk Disclosures

Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2005, 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 $8,360,000 at June 30, 2005, represents approximately 0.5% of total investments in this pool.

Non-Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2005, 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 $5,519,000 at June 30, 2005, represents approximately 0.6% of total investments in this pool.

3. Investments (continued)

International Equity

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

Currency	Equity Securities	Cash	Total
Australian dollar	$ 13,290,915	$ 375,288	$ 13,666,203
British pound	119,895,302	4,400,463	124,295,765
Canadian dollar	22,258,200	(200,893)	22,057,307
Danish krone	3,703,655	27,130	3,730,785
Euro	167,604,540	5,158,260	172,762,800
Hong Kong dollar	18,055,400	79,195	18,134,595
Indian rupee	6,778,060	–	6,778,060
Israeli shekel	897,903	40,690	938,593
Japanese yen	125,558,543	2,073,923	127,632,466
Malaysian ringgit	1,999,387	18,153	2,017,540
Mexican new peso	1,880,790	36,933	1,917,723
New Zealand dollar	2,497,951	23,218	2,521,169
Norwegian krone	6,613,326	60,396	6,673,722
Singapore dollar	8,163,959	212,569	8,376,528
South African rand	1,939,123	45,969	1,985,092
South Korean won	7,451,118	281,961	7,733,079
Swedish krona	20,786,351	569,873	21,356,224
Swiss franc	38,254,942	1,635,215	39,890,157
Taiwan dollar	4,045,024	678,239	4,723,263
Total	$ 571,674,489	$ 15,516,582	$ 587,191,071

BRIM’s amount invested in the international equity pool of $9,276,000 at June 30, 2005, represents approximately 1.2% of total investments in this pool.

3. Investments (continued)

International Nonqualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2005, was $28,391,772. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. BRIM's amount invested in the international nonqualified pool of $477,000 at June 30, 2005, represents approximately 1.7% of total investments in this pool.

Fixed Income

Credit Risk

WVIMB limits the exposure to credit risk in the fixed income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted average credit ratings of the asset types in the fixed income pool.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
U.S. Treasury bonds and notes	Aaa	AAA	$ 618,760,671	32.3%
Corporate bonds and notes	A	BBB	383,042,334	20.0
Agency bonds	Aaa	AAA	56,867,431	3.0
Corporate asset-backed securities	Aaa	AAA	48,360,941	2.5
Agency discount notes	P1	A-1	1,920,805	0.1
Money market funds	Aaa	AAA	669,254	0.0
Total rated investments			$ 1,109,621,436	57.9%

Unrated securities include commingled investment pools of $731,111,900 and repurchase agreements of $77,400,000. Acceptable collateral for the repurchase agreements include U.S. Treasury securities which are exempt from credit risk and government agency securities, for which credit risk was not readily available from the WVIMB. At June 30, 2005, the ratings of the following securities had dropped below a rating of B: Dynegy Holdings (Caa, CCC), El Paso Corporation (Caa), Intelsat (Caa) and Sonat (Caa). The value of these securities at June 30, 2005, was $7,298,775. This represents approximately 0.4% of the pool. WVIMB continues to monitor the creditworthiness of these companies.

3. Investments (continued)

Concentration of Credit Risk

West Virginia statutes prohibit the fixed income pool from investing more than 5% of its assets in securities issued by a single private corporation or association.

Interest Rate Risk

WVIMB monitors interest rate risk of the 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	**Fair Value**	**Modified Duration (years)**
Commingled investment pools	$ 731,111,900	4.4
U.S. Treasury notes and bonds	618,760,671	5.6
Corporate notes and bonds	383,042,334	6.6
Repurchase agreements	77,400,000	0.0
Agency bonds	56,867,431	7.2
Corporate asset-backed securities	48,360,941	3.7
Agency discount notes	1,920,805	0.4
Money market fund	669,254	0.0
Total assets	$ 1,918,133,336	5.1

3. Investments (continued)

The fixed income pool invests in commercial and residential mortgage-backed and asset-backed securities. 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, 2005, the fixed income pool held $259,008,821 of these securities. This represents approximately 8% of the value of the fixed income pools.

BRIM's amount invested in the fixed income pool of $46,981,000 at June 30, 2005, represents approximately 2.4% of total investments in this pool.

Cash Liquidity

Overview

WVIMB limits the exposure to credit risk in the cash liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

3. Investments (continued)

The following table provides information on the weighted average credit ratings of the cash liquidity pool's investments.

Investment Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9%
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aaa	AAA	155,559,323	16.4
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,955,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	4,241,278	0.3
Total rated investments			$ 1,437,958,293	97.7%

Unrated securities include repurchase agreements of $141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of Credit Risk

West Virginia statutes prohibit the cash liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association.

3. Investments (continued)

Interest Rate Risk

The weighted average maturity (WAM) of the investments of the cash liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the various asset types in the cash liquidity pool.

Investment Type	Carrying Value	WAM
Commercial paper	$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total rated investments	$ 1,579,008,293	45

BRIM's amount invested in the cash liquidity pool of $31,072,000 at June 30, 2005, represents approximately 3.2% of total investments in this pool.

Short-Term Fixed Income

Credit Risk

WVIMB limits the exposure to credit risk in the short-term fixed income pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

3. Investments (continued)

The following table provides information on the weighted average credit ratings of the short-term fixed income pool's investments.

Investment Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. Treasury bills	Aaa	AAA	$ 59,972,698	15.1%
Commercial paper	P1	A-1	50,759,260	12.7
Agency discount notes	P1	A-1	11,949,276	3.0
Agency bonds	Aaa	AAA	11,449,771	2.9
Certificates of deposit	P1	A-1	6,000,000	1.5
Money market funds	Aaa	AAA	328,493	0.1
Total rated investments			$ 140,459,498	35.3%

Unrated securities include repurchase agreements of $258,000,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. Securities lending collateral that is reported in the statement of assets and liabilities is invested in the lending agent's money market fund.

3. Investments (continued)

Interest Rate Risk

The WAM of the investments of the short-term fixed income pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the various asset types in the short-term fixed income pool.

Investment Type	Carrying Value	WAM (days)
Repurchase agreements	$ 258,000,000	1
U.S. Treasury bills	59,972,698	7
Commercial paper	50,759,260	53
Agency discount notes	11,949,276	81
Agency bonds	11,449,771	114
Certificates of deposit	6,000,000	117
Money market funds	328,493	1
Total investments	$ 398,459,498	16

Investments at cost and as reported at fair value are summarized as follows at June 30 (in thousands):

	2005		2004	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Domestic large cap equity	**$ 8,105**	**$ 8,360**	$ –	$ –
Domestic non-large cap equity	**5,208**	**5,519**	–	–
International equity	**8,857**	**9,276**	–	–
International equity nonqualified	**473**	**477**	–	–
Fixed income	**45,954**	**46,981**	–	–
Short-term fixed income	**155**	**155**	–	–
Fixed income cash liquidity pool	**30,091**	**31,072**	75,787	75,787
Enhanced yield fund	**–**	**–**	89,592	85,645
	$ 98,843	**$ 101,840**	$ 165,379	$ 161,432

3. Investments (continued)

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

	2005	2004
Investment income:		
Interest income	**$ 2,471**	$ 5,120
Realized net (loss) gain on sale of securities	**(3,109)**	503
Unrealized gain (loss) on investments	**6,944**	(4,612)
Total investment income	**$ 6,306**	$ 1,011

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:

	2005	2004
	(In Thousands)	
Unpaid claims and claims adjustment expense liability at beginning of year	**$ 219,328**	$ 184,287
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	**65,669**	93,682
Decrease in provision for insured events of prior years	**8,994**	7,560
Total incurred claims and claims adjustment expense	**56,675**	86,122
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	**9,134**	13,799
Claims and claims adjustment expense attributable to insured events of prior years	**49,117**	37,282
Total payments	**58,251**	51,081
Less liability assumed by WVPMIC	**32,683**	–
Total unpaid claims and claims adjustment expense liability at end of year	**$ 185,069**	$ 219,328

4. Unpaid Claims and Claims Adjustment Expense Liability (continued)

If the unpaid claims and claims adjustment expense liability were discounted using a 5% discount factor for 2005 and 2004 to take into consideration the time value of money, the result would be a decrease in the liability and an increase in net assets of approximately $17,099,000 and $20,162,000 for fiscal years 2005 and 2004, respectively. The estimated current portion of the total unpaid claims liability is $50,362,000 and $60,148,000 in 2005 and 2004, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

5. Employee Benefit Plans

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 five 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 9.5% of covered employees' salaries to PERS. 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:

	2005	**2004**	**2003**
BRIM contributions (9.5%)	**$ 100,012**	$ 106,673	$ 74,231
Employee contributions (4.5%)	**42,875**	45,717	34,986
Total contributions	**$ 142,887**	$ 152,390	$ 109,217

5. Employee Benefit Plans (continued)

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency (PEIA) to obtain a greater benefit under PERS. The estimated liability for sick leave postretirement benefits approximating $166,000 and $190,000, respectively, as of June 30, 2005 and 2004, is included in accrued expenses and other liabilities in the statements of net assets. This benefit is funded on a pay-as-you-go basis. The related current year expense was not material. There are currently approximately 20 employees eligible to receive such benefits.

6. Debt and Lease Arrangements

During fiscal year 2004, BRIM repaid the $500,000 loan provided by the West Virginia Legislature to help repay the startup costs relating to the House Bill 601 Program. Additionally, the $24,000,000 due to primary government that was reported by BRIM at June 30, 2003, was transferred to WVPMIC on June 30, 2004, in accordance with State Code.

In December 2001, the State entered into a lease arrangement on behalf of BRIM for office space occupied by BRIM with a monthly lease payment of $9,588 and a term beginning on February 1, 2002, and ending on January 31, 2007. Operating lease expense approximated $115,000 for the years ended June 30, 2005 and 2004, relating to this arrangement. Future minimum lease payments under this operating lease are as follows for years ending June 30:

2006	$ 115,000
2007	67,000
	$ 182,000

7. Transactions With Primary Government and Component Units

State General Revenue Fund appropriations approximating $2,000,000 and $1,942,000 for the years ended June 30, 2005 and 2004, respectively, are included in nonoperating revenues in the statements of revenues, expenses, and changes in net asset. Such appropriations are used to reduce the unfunded liability and to cover certain administrative expenses such as payroll. Premium revenues derived from billings to entities funded with “special revenue” accounts and component units of the primary government approximated $46,466,000 and $36,203,000 for the years ended June 30, 2005 and 2004, respectively.

7. Transactions With Primary Government and Component Units (continued)

BRIM is required by Senate Bill Number 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 $3,216,000 and $3,406,000 for the years ended June 30, 2005 and 2004, respectively. The Fund is not included in BRIM’s financial statements, but is included in the General Fund of the State.

8. Reinsurance

BRIM has entered into two reinsurance agreements for excess coverage with unrelated insurance companies wherein the company assumes the liability over BRIM’s limit for a ceded premium. BRIM obtains an excess policy from the commercial market which gives boards of education a liability limit of up to $5,000,000 in excess of BRIM’s $1,000,000 self-insured limit. BRIM also purchases an excess policy on all State and SB3 insured property over and above BRIM’s $1,000,000 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. As of June 30, 2005 and 2004, BRIM reported no reinsurance recoverables from these reinsurers.

9. Risk Management

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

Health insurance coverage for BRIM’s employees is obtained through its participation in health insurance coverage offered by 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. Additionally, BRIM has obtained coverage for job-related injuries through its participation in the West Virginia Workers’ Compensation Fund, a public entity risk pool. Furthermore, BRIM is a participant in the self-insured public entity risk pool it administers. Coverage is in the amount of $1,000,000 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 Supplemental Schedules

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 othe 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 t 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 th 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 fo 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 existin 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 amour 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, th correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. Th columns of the table show data for successive policy years.

	Fiscal and Policy Year Ended June 30									
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
	(In Thousands)									
1) Premiums and investment revenues										
Earned	$ 63,729	$ 61,870	$ 59,555	$ 57,964	$ 48,437	$ 53,828	$ 56,992	$ 81,450	$ 110,279	$ 95,336
Ceded	1,928	1,697	1,652	1,557	1,553	1,629	1,866	3,126	3,801	3,912
Net earned	61,801	60,173	57,903	56,407	46,884	52,199	55,126	78,324	106,478	91,424
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	7,552	6,749	6,280	6,336	8,590	6,471	7,315	11,168	14,332	8,301
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	47,754	35,672	30,694	40,152	47,920	46,867	60,302	83,642	94,279	65,674
Ceded	185	134	193	307	364	360	570	577	597	5
Net incurred	47,569	35,538	30,501	39,845	47,556	46,507	59,732	83,065	93,682	65,669
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	5,702	5,346	8,553	7,895	10,068	8,547	11,077	11,746	13,799	9,134
One year later	12,292	11,393	14,388	11,401	16,859	15,168	14,834	25,194	55,414	
Two years later	23,549	18,835	20,998	18,193	24,900	16,778	20,028	50,292		
Three years later	34,519	28,302	28,977	26,556	37,110	28,352	35,464			
Four years later	38,132	34,292	33,219	34,084	41,278	35,596				
Five years later	42,797	37,487	37,950	40,313	47,658					
Six years later	44,027	43,432	40,929	43,379						
Seven years later	44,682	41,383	41,812							
Eight years later	45,690	41,770								
Nine years later	45,815									
5) Re-estimated ceded claims and expenses	185	134	193	307	364	360	570	577	597	5
6) Re-estimated net incurred claims and allocated claims adjustment expense:										
End of policy year	47,569	35,538	30,501	39,845	47,556	46,507	59,732	83,065	93,682	65,669
One year later	44,349	35,343	37,585	42,785	50,810	49,612	58,141	80,739	93,171	
Two years later	46,976	38,831	42,414	45,633	53,519	48,108	56,755	79,646		
Three years later	48,050	44,069	43,249	46,873	53,961	40,241	58,004			
Four years later	49,065	43,459	43,629	45,662	55,116	45,572				
Five years later	48,229	44,944	43,242	46,351	55,728					
Six years later	47,373	43,431	42,112	45,850						
Seven years later	46,806	43,617	45,097							
Eight years later	47,071	43,500								
Nine years later	47,022									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of policy year	(547)	7,962	14,596	6,005	8,172	(935)	(1,728)	(3,419)	(511)	–

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

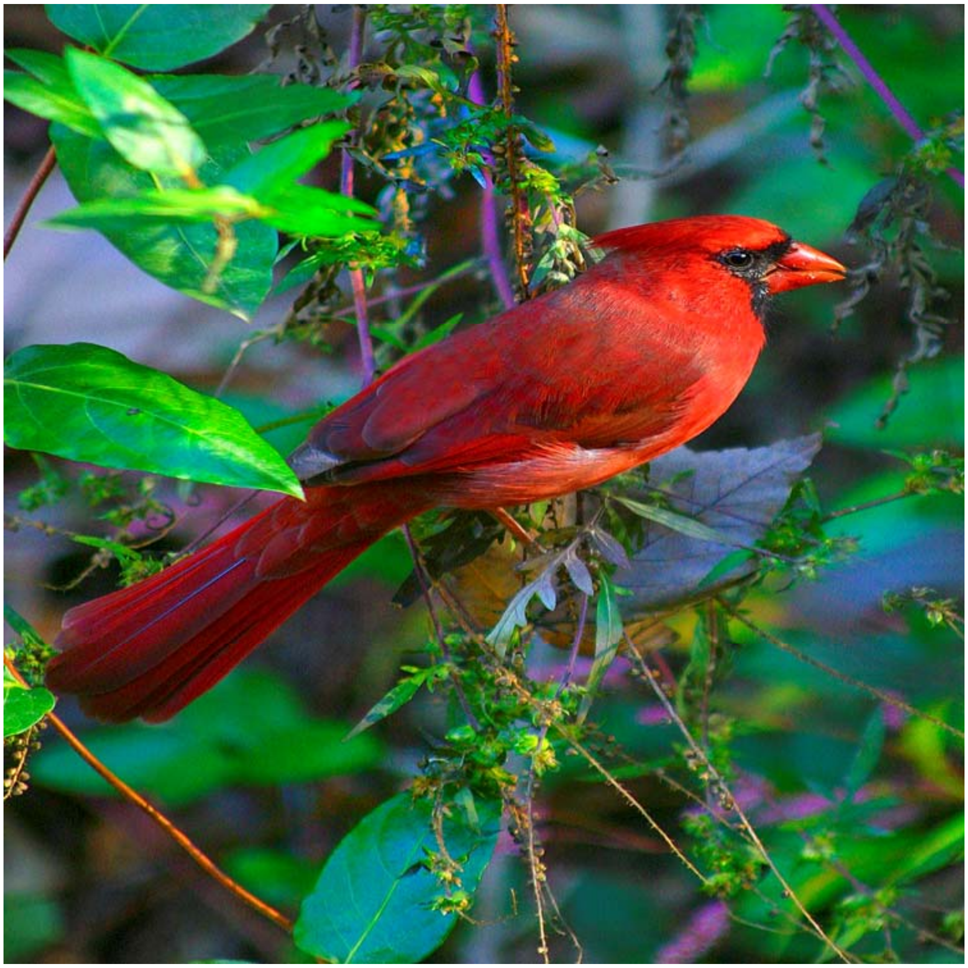
West Virginia Board of Risk and Insurance Management

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

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

	Fiscal and Policy Year Ended June 30									
	2005					2004				
	Liability	Property	Mine Subsidence	House Bill 601	Total	Liability	Property	Mine Subsidence	House Bill 601	Total
	(In Thousands)									
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	**$ 170,850**	**$ 2,723**	**$ 2,497**	**$ 43,258**	**$ 219,328**	$ 157,204	$ 4,394	$ 2,183	$ 20,506	$ 184,287
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	**60,975**	**3,369**	**1,325**	**–**	**65,669**	58,042	3,895	1,872	29,873	93,682
(Decrease) increase in provision for insured events of prior fiscal years	**(2,572)**	**(562)**	**(1,150)**	**(4,710)**	**(8,994)**	(5,561)	2,275	(827)	(3,447)	(7,560)
Total incurred claims and claims adjustment expense	**58,403**	**2,807**	**175**	**(4,710)**	**56,675**	52,481	6,170	1,045	26,426	86,122
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	**7,936**	**1,075**	**123**	**–**	**9,134**	8,337	1,950	176	3,336	13,799
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	**45,294**	**1,332**	**540**	**1,951**	**49,117**	30,498	5,891	555	338	37,282
Total claims and claims adjustment expense payments	**53,230**	**2,407**	**663**	**1,951**	**58,251**	38,835	7,841	731	3,674	51,081
Less liability assumed by WVPMIC	**–**	**–**	**–**	**32,683**	**32,683**	–	–	–	–	–
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	**$ 176,023**	**$ 3,123**	**$ 2,009**	**$ 3,914**	**$ 185,069**	$ 170,850	$ 2,723	$ 2,497	$ 43,258	$ 219,328

Statistical Section



State Bird – The cardinal was made the official bird by the Legislature on March 7, 1949. The adult bird measures approximately eight inches long and can be found from New York state to the Gulf of Mexico.

TABLE 1

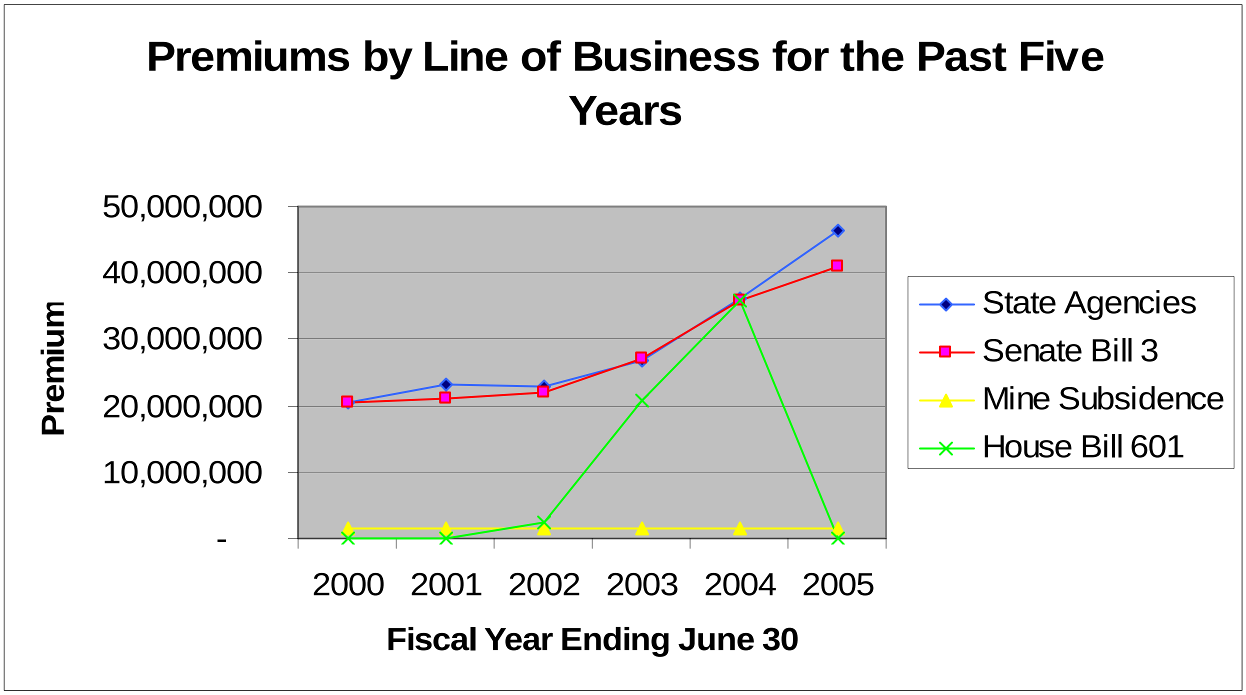
Comparative Schedule of Revenues and Expenses and Changes in Net Asset (Deficiency)
Fiscal Year 1996 - Fiscal Year 2005
(Expressed in Thousands)

	2005	2004	2003	2002
Operating Revenues				
Premiums	$ 89,030	$109,268	$ 76,488	$ 48,693
Less Excess Coverage/Reinsurance Premiums	(3,912)	(3,801)	(3,126)	(2,011)
Net Operating Revenues	85,118	105,467	73,362	46,682
Operating Expenses				
Claims and Claims Adjustment Expense	56,675	86,122	77,231	68,730
Premium Taxes	--	--	--	--
General and Administrative	4,294	10,536	5,360	2,976
Depreciation Expense	--	--	--	--
Total Operating Expenses	60,969	96,658	82,591	71,706
Operating Income (loss)	24,149	8,809	(9,229)	(25,024)
Nonoperating Revenues				
Interest Income	6,306	1,011	4,962	5,367
Financing Income	40	98	45	44
Appropriations from State of West Virginia	2,000	1,942	2,910	1,066
Distribution to Physicians' Mutual	(4,582)	--	--	--
Net Income (loss) before extraordinary item	3,764	3,051	(1,312)	(18,547)
Extraordinary item related to SB#1002 Premium Tax	--	--	--	--
Change in Net Asset (Deficiency)	27,913	11,860	(1,312)	(18,547)
Total Net Asset (Deficiency) at beginning of year	(27,386)	(39,246)	(37,934)	(19,387)
Total Net Asset (Deficiency) at end of year	$ 527	$ (27,386)	$ (39,246)	$ (37,934)

Source: Compiled from BRIM's internal accounting records

2001	2000	1999	1998	1997	1996
$ 45,606	$ 42,404	$ 50,888	$ 52,117	$ 56,568	$ 59,712
(1,629)	(1,553)	(1,557)	(1,652)	(1,697)	(1,928)
43,977	40,851	49,331	50,465	57,784	57,784
49,640	63,130	50,125	35,101	33,924	41,057
--	--	--	--	873	1,829
2,911	5,119	2,868	2,852	3,106	3,196
--	8	9	9	10	6
52,551	68,257	53,002	37,962	37,913	46,088
(8,574)	(27,406)	(3,671)	12,503	16,958	11,696
8,222	6,033	5,524	6,017	5,302	4,017
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
(352)	(21,373)	1,853	18,520	22,260	15,713
--	--	--	--	3,811	--
(352)	(21,373)	1,853	18,520	26,071	15,713
(19,035)	2,338	485	(18,035)	(44,106)	(59,819)
$ (19,387)	$ (19,035)	$ 2,338	$ 485	$ (18,035)	$ (44,106)

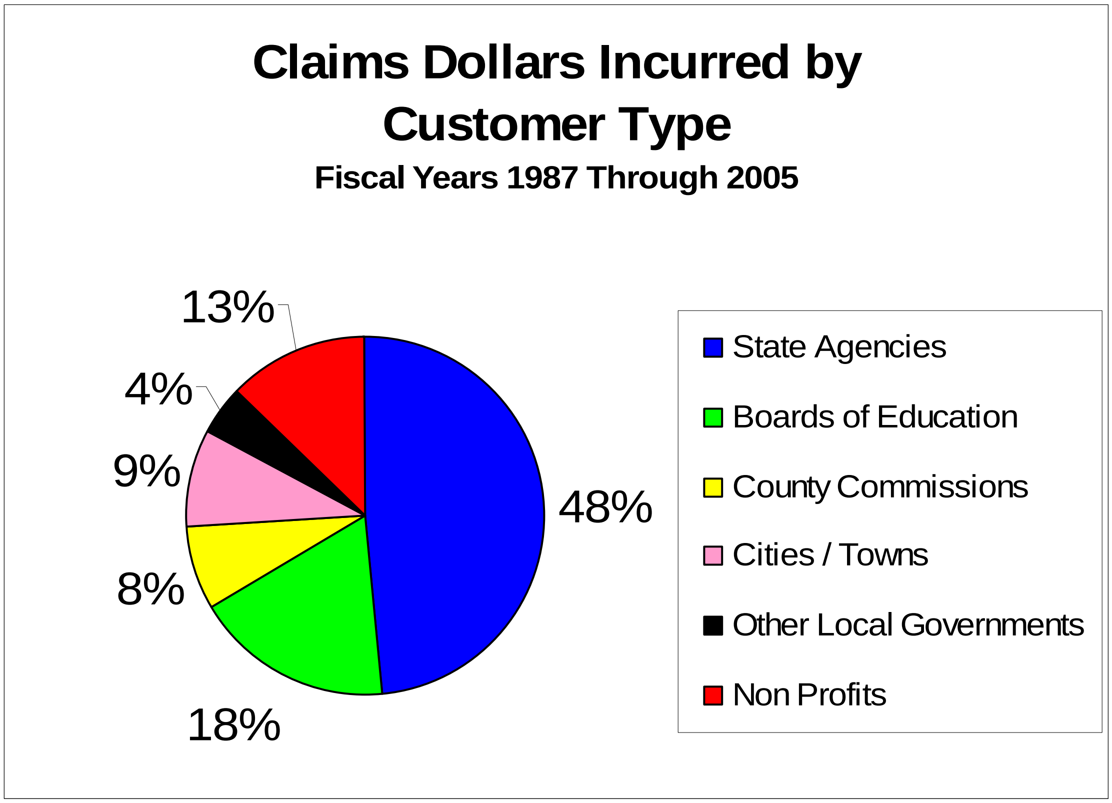
TABLE 2



Source: BRIM's internal financial statements.

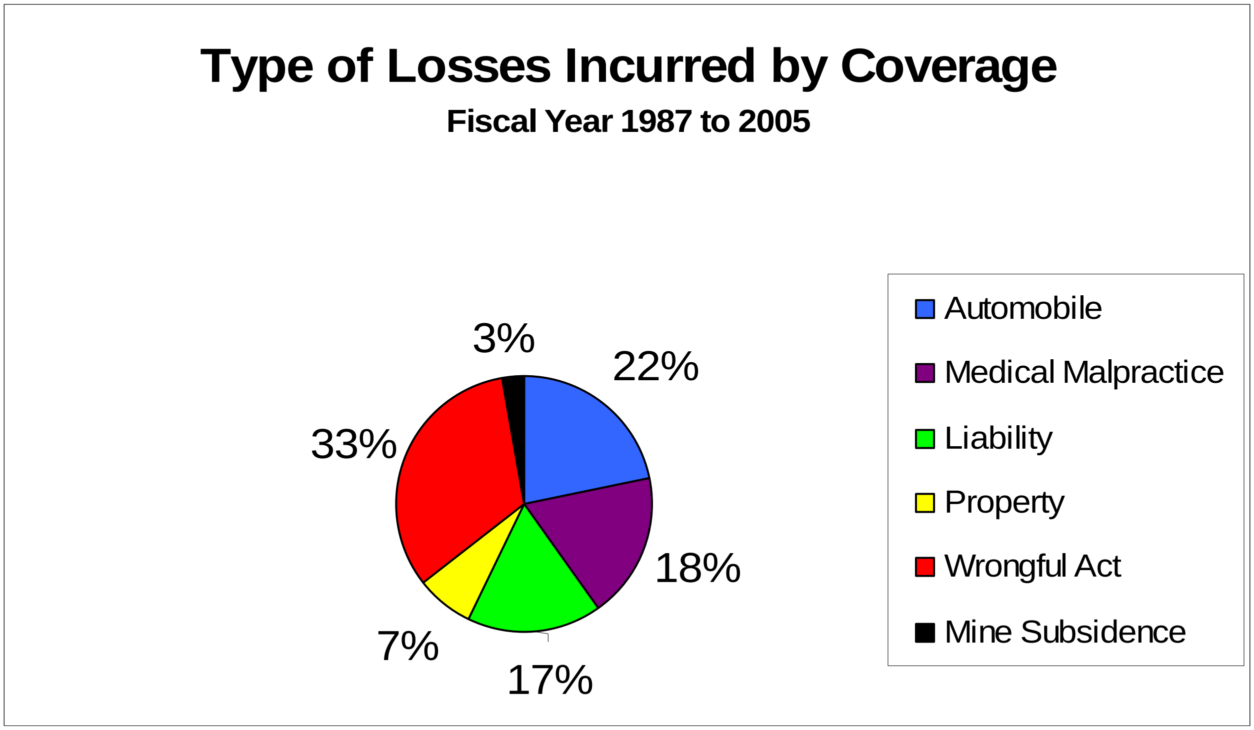
The chart above shows premiums by line of business for the past five fiscal years. This chart illustrates the upward trend of premiums for State Agencies and Senate Bill 3 customers.

TABLE 3



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

TABLE 4



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.

TABLE 5

Listing of Coverages in Effect for Fiscal Year 2005

LIABILITY	LIMIT OF LIABILITY	
Automobile Liability Policy No. RMCA 518-90-14 Company: AIG Insurance	$	1,000,000 per occurrence
General Liability Policy No. RMGL 480-62-96 Company: AIG Insurance	$	1,000,000 per occurrence
Aircraft Liability Policy No. AV 3380 147-02 Company: AIG Insurance	$	1,000,000 per occurrence
Excess Liability-Bd. of Education Policy No. NXG358846F Company: General Star	$	5,000,000 per occurrence or claim

PROPERTY	LIMIT OF LIABILITY	
Blanket Property Policy No. FS D3586782A 002 Company: Westchester	$ $	25,000,000 primary layer 1,000,000 deductible
Policy No. NHD 335235 Company: RSUI	$	175,000,000 in excess of primary layer of $ 25,000,000
Policy No. I20644904-002 Company: Westchester	$ $	10,000,000 flood with 1,000,000 deductible
Boiler and Machinery Policy No. BMI2280385 Company: Hartford Steam Boiler	$	5,000,000 per equipment covered excess of 1,000,000
Public Insurance Official Position Schedule Bond Bond No. FPS0406CH2955 Company: St. Paul Fire and Marine Insurance Co.	Variable amounts as set by Statute	

TABLE 6

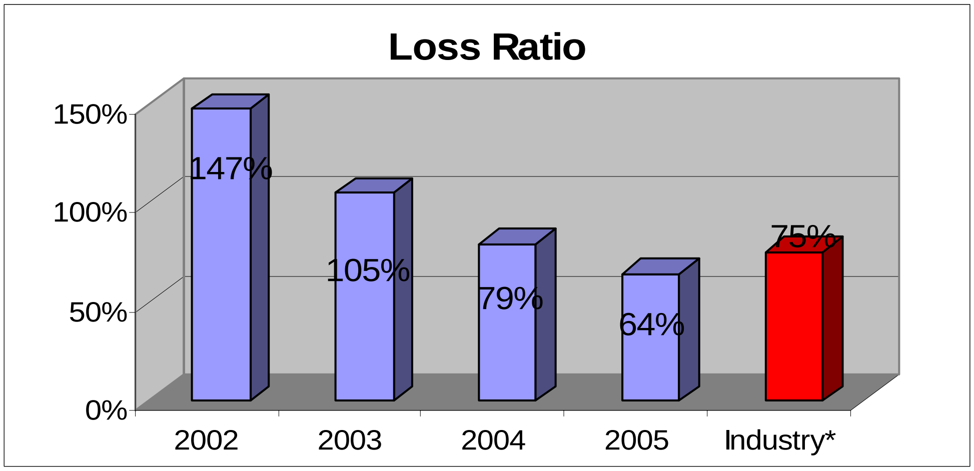
	Top 10 State Agency Premiums for Fiscal Year 2005		
1	West Virginia University	$	11,548,502
2	Public Safety Division		7,543,800
3	Department of Health and Human Resources		5,307,892
4	Division of Highways		5,210,794
5	Marshall University		4,275,496
6	Corrections Division		1,233,704
7	Division of Tourism		826,037
8	Division of Natural Resources		692,883
9	Division of Environmental Protection		627,118
10	WV Parkways and Economic Development Authority		595,500
	Total Top Ten	**$**	**37,861,726**
	Total State Premium Billing for 2005	**$**	**46,832,310**
	% of top 10 in relation to all state agency billings		**80.85%**

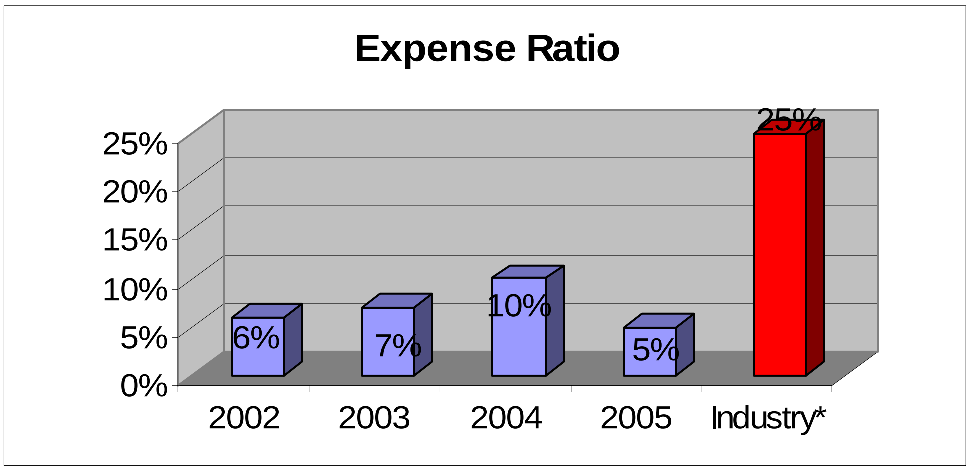
	Top 20 SB 3 Premiums for Fiscal Year 2005		
1	Kanawha County Board of Education	$	1,350,779
2	Raleigh County Board of Education		734,716
3	Berkeley County Board of Education		569,786
4	Cabell County Board of Education		546,189
5	Harrison County Board of Education		545,753
6	Wood County Board of Education		542,359
7	City of Beckley		531,159
8	Monongalia County Board of Education		502,776
9	Mercer County Board of Education		482,132
10	City of St. Albans		466,578
11	Prestera Center for Mental Health		442,609
12	Mingo County Board of Education		437,357
13	Monongalia County Commission		437,204
14	Wheeling Park Commission		431,459
15	Boone County Commission		414,092
16	Putnam County Board of Education		413,780
17	Wayne County Board of Education		406,185
18	West Virginia University Medical Corporation		401,810
19	Marion County Board of Education		377,583
20	Fayette County Board of Education		373,521
	Total Top Twenty	**$**	**10,407,827**
	Total SB 3 Premium Billing for 2005	**$**	**44,007,044**
	% of top 20 in relation to total SB 3 billings		**23.65%**

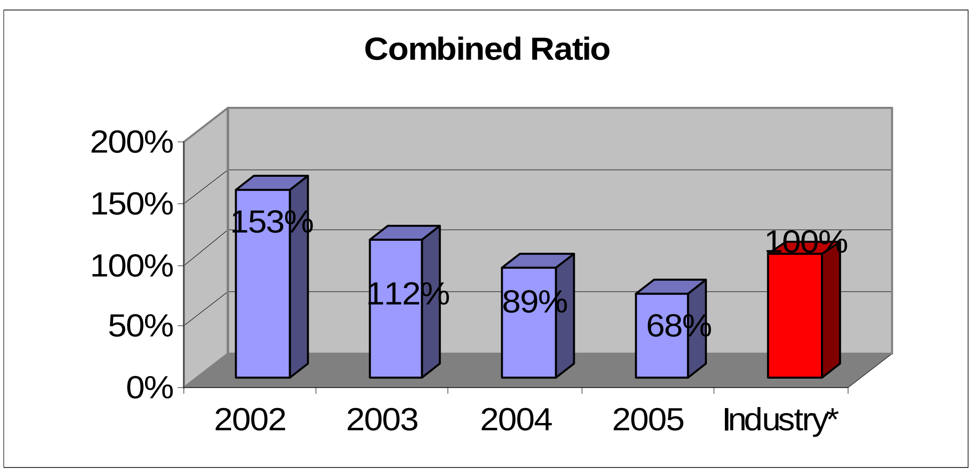
Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.

TABLE 7

Industry Averages Compared to BRIM



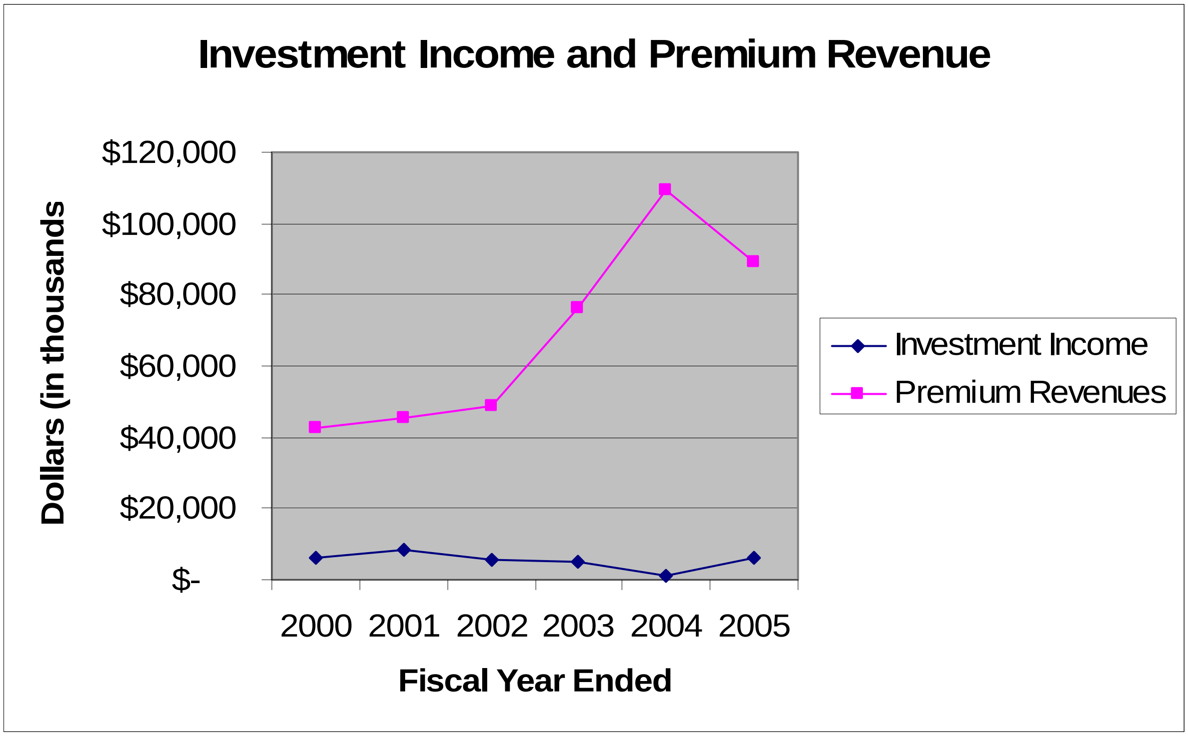




Source: Standard and Poor's Industry Surveys, Insurance: Property/Casualty, July 15, 2005.

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

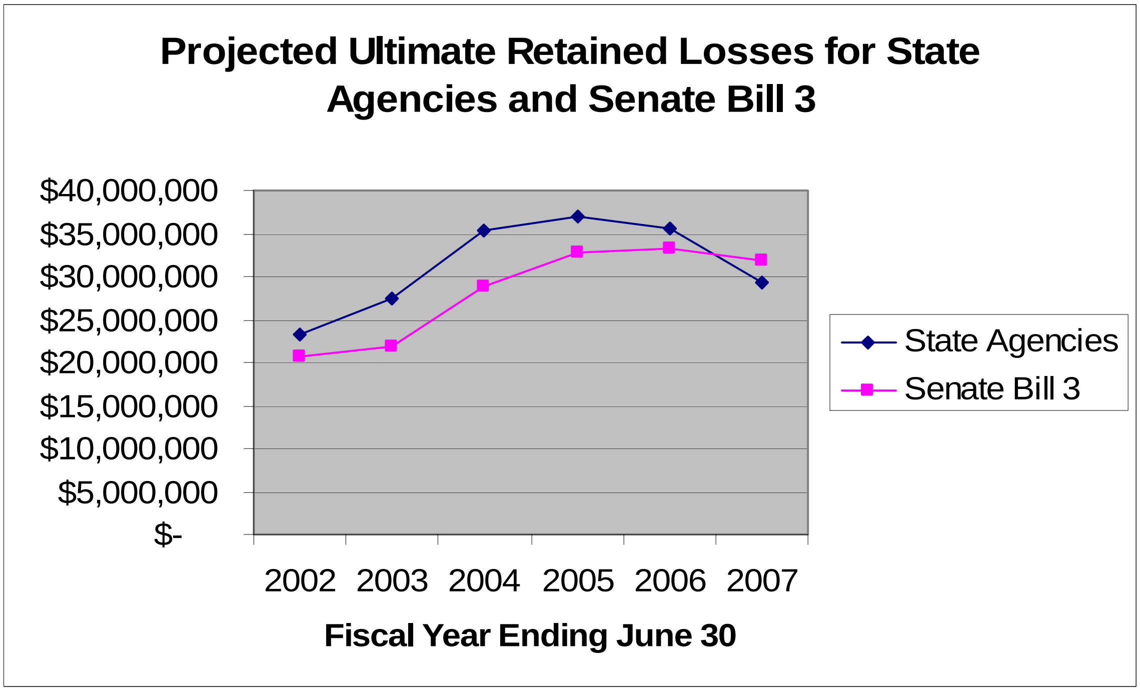
TABLE 8



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

This chart illustrates the declining investment income BRIM has received even with a sharp increase in premium revenues.

TABLE 9



Source: Taken from the independent actuarial reports from AON (2004-2007) and Ernst and Young (2002-2003).

All projections are listed at their nominal value.