

# 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, 2008**

**On the Cover - Mt. Storm Wind Farm**, located in Grant County, West Virginia. The project consists of 132 wind turbines that can generate electricity to serve about 66,000 homes and businesses. Photographs used in this report were courtesy of photographers Stephen Shaluta, Jr. and David Fattaleh, with the West Virginia Division of Tourism and Parks and Rick Childers.

# State of West Virginia

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### Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



**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

**Stephen W. Schumacher, CPA, Chief Financial Officer**

West Virginia Board of Risk and Insurance Management

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

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2008

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# Introductory Section

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**Willow Island** – Located in Pleasants County, West Virginia burns coal brought in by river barges. The power plant has the capacity to generate 1,533 MW, enough electricity to serve 766,500 homes.

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**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. Brian E. Noland, Member

**Executive Staff**

Charles E. Jones, Jr., Executive Director

Stephen W. Schumacher, CPA, Chief Financial Officer

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



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

JOE MANCHIN III  
GOVERNOR

(304) 766-2646 ADMINISTRATION  
(304) 766-2653 FAX  
(800) 345-4669 TOLL FREE WV  
[www.state.wv.us/brim](http://www.state.wv.us/brim)

Formal Transmittal of Comprehensive Annual Financial Report (CAFR)

December 15, 2008

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, 2008, 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.

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

Management is responsible for establishing and maintaining internal control designed to ensure that the assets of BRIM are protected from loss, theft or misuse and that the preparation of the financial statements is in conformity with 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 146. Additionally, BRIM provides these services to cities, counties, and non-profit organizations throughout the State under the provisions of Senate Bill 3 (SB 3). Currently, BRIM insures approximately 1,000 of these organizations. BRIM also provides a coal mine subsidence reinsurance program that allows homeowners and businesses to obtain insurance coverage up to \$75,000 for collapses and damage caused by underground coal mines. Currently, BRIM underwrites over 15,000 commercial and personal mine subsidence policies annually.

In December 2001, the West Virginia Legislature passed House Bill 601 which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies non-renewing policies for health care providers on a national level, and in the State. The private physician part of this program was novated to the West Virginia Physician's Mutual Insurance Company on July 1, 2004.

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

BRIM uses various means to cover its insureds. Liability claims incurred before July 1, 2005 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.

Effective July 1, 2005, BRIM established an annual pre-funding trust program with a financial institution that covers all liability claims with loss dates occurring after June 30, 2005. With this program, a separate sub-account that coincides with the current claim and fiscal year is created within the trust account. The sub-account for the current claim/fiscal year is then fully funded by BRIM during the current fiscal year. This advance deposit funding ensures that each year's sub-account covers the total actuarially determined estimated liability claims costs for those liability claims with loss dates whose occurrence corresponds with that specific claim/fiscal year. The financial institution, acting as trustee, holds these funds within the sub-accounts in the trust to cover BRIM's estimated liability claims costs for all liability claims with loss dates of July 1, 2005 and later. The funds, together with their earnings, are used to pay claims and claims adjustment expenses related to these liability claims. As escrow agent, the financial institution periodically transfers monies from the trust to the insurance company administering these claims in order to reimburse the insurance company for payments that they have issued on these claims and claims adjustment expenses on BRIM's behalf.

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.

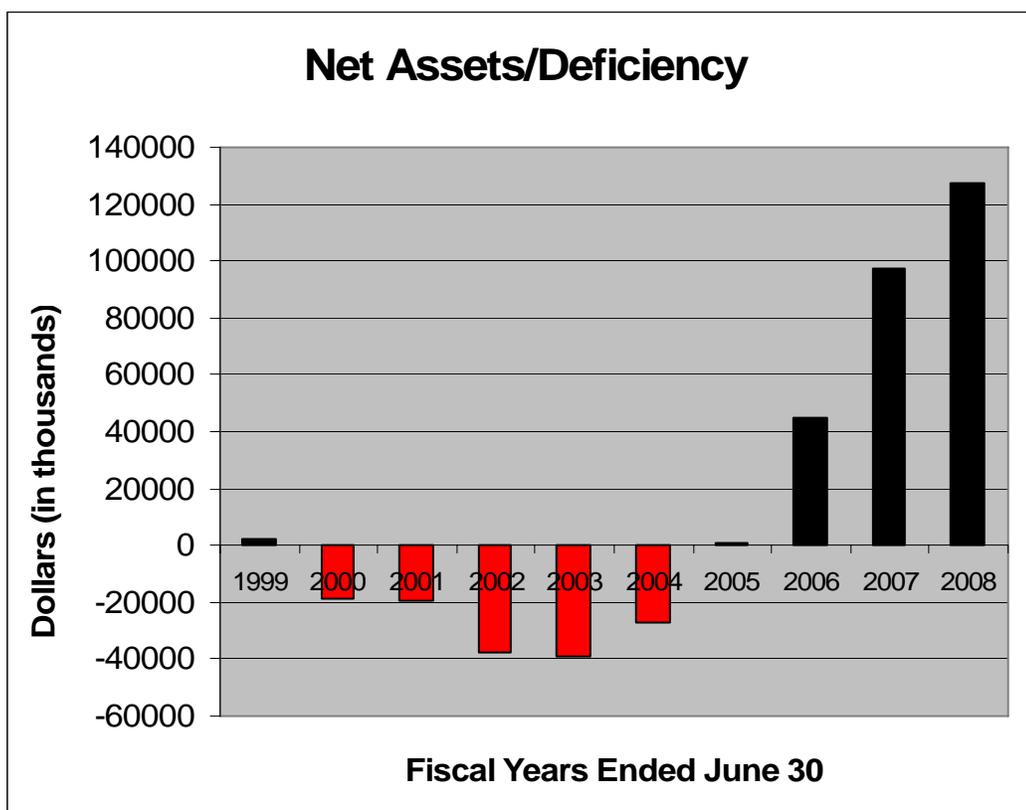
## **ASSESSING BRIM'S FINANCIAL CONDITION**

### **Net Assets**

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

deficiency in net assets. As of June 30, 2008, BRIM has total net assets of \$127,630,000 reflected on the Statement of Net Assets. Management anticipates that net assets will continue to be positive over the next few years. For more detailed information see the MD&A included in the financial section of this report.

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

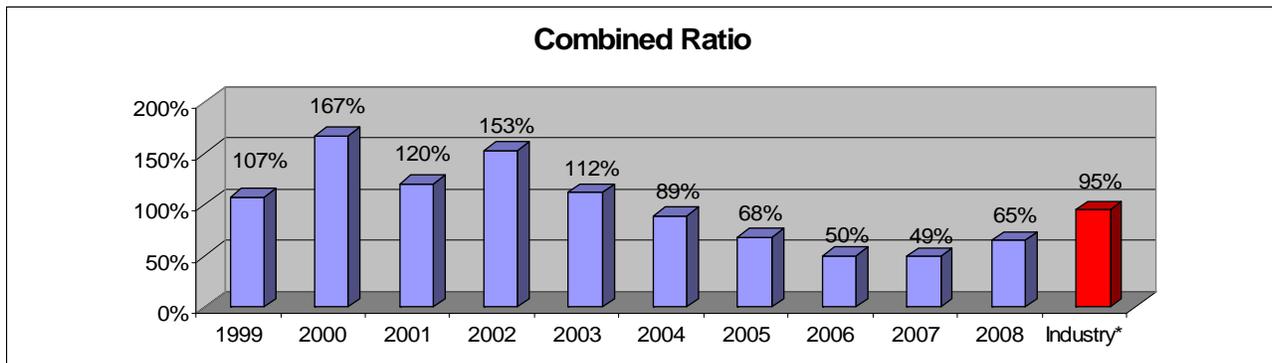


BRIM's improvement in financial position has generally outperformed the commercial insurance industry over the past several years.

### Combined Financial Ratio

The combined ratio is one of the key ratios used to measure underwriting performance. It is derived by adding the loss and expense ratio. A combined ratio below 100% indicates an underwriting profit and one above 100% indicates an underwriting loss. BRIM's combined ratio for 2008 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 27%. This has enabled BRIM to keep this key financial ratio below the industry this year. However, the actuarial risk funding study completed for 2008 shows that there was a significantly smaller overall reduction in fiscal year 2008 for the net decrease in actuarial reserve estimates for provisions for insured events of prior fiscal years than the overall reductions for provisions for insured events of prior fiscal years recognized in the risk funding studies for both fiscal year 2007 and 2006. This lowered the loss ratios for both 2006 and 2007 versus 2008 and also improved the combined ratios for fiscal years 2006 and 2007 versus 2008. The BRIM combined ratios are shown in the chart below in blue and the industry is in red.



\*The industry data shown above was obtained from Standard and Poor's Industry Surveys, Insurance: Property / Casualty, July 10, 2008.

## Investment Strategy

In accordance with state code, BRIM's long-term investments are managed by the West Virginia Investment Management Board (WVIMB) and, beginning in fiscal year 2006, BRIM's excess short-term cash funds are managed by the West Virginia Board of Treasury Investments (BTI). During fiscal year 2004, BRIM and the WVIMB began working on a solution to maximize BRIM's investment returns, which had 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. Beginning in fiscal year 2006, the cash portion is maintained in accounts with the WVIMB that are similar to the low-risk money market funds maintained by the BTI prior to fiscal year 2006. This approach is similar to those used by commercial insurers. The anticipated yield on this combined investment mix is several points higher than the rate of return previously earned by BRIM. This arrangement was finalized and the new investment account was established in the early part of fiscal year 2004. Consequently, investment earnings beginning in 2005 have been significantly higher than past years. However, the current conditions in the financial markets have resulted in significant investment losses for BRIM for the first half of fiscal year 2009. It is anticipated that the uncertainty in the financial markets will most likely continue and negatively impact BRIM's overall financial results for the fiscal year ending June 30, 2009.

## **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, 2008. 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, 2007. This was the thirteenth consecutive year that BRIM has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

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

A special thank you is extended to the Executive Director, the Board of 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, 2008.

Sincerely,



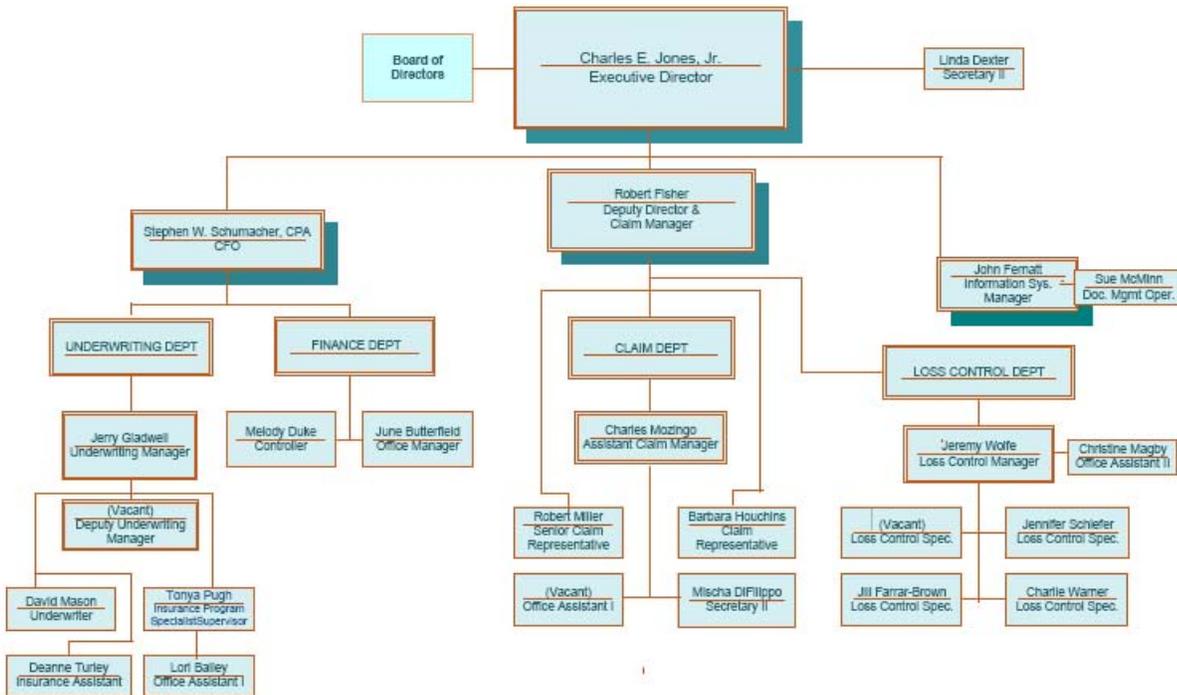
Stephen W. Schumacher, CPA  
Chief Financial Officer

Joe Manchin III, Governor  
State of West Virginia

**BOARD OF RISK AND  
INSURANCE MANAGEMENT**

As of June 30, 2008

Robert Ferguson, Jr., Cabinet Secretary  
Department of Administration



# 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, 2007

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.



*Chloe S. Cox*

President

*Jeffrey R. Emer*

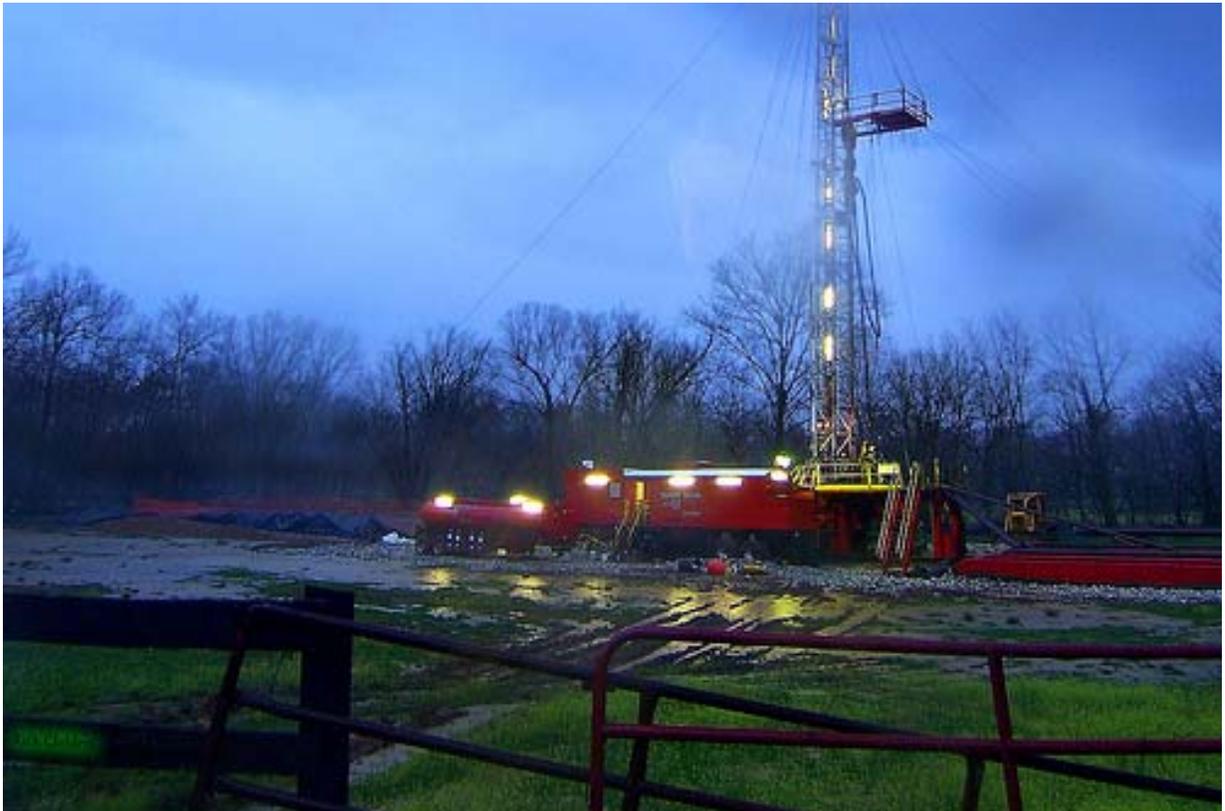
Executive Director



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# Financial Section

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**Oil and Natural Gas** – This drilling site is located on Howell’s Mill Road in Ona, West Virginia. The oil and gas industry began as an outgrowth of the salt industry.

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## Report of Independent Auditors

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

We have audited the accompanying 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, 2008 and 2007, 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 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, 2008 and 2007, 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 of America.

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, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, 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 2008 audit.

Management's Discussion and Analysis on pages 16 through 24 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's Discussion and Analysis on pages 16 through 24 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 audits were 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 audits of the basic financial statements, and accordingly, we express no opinion on them.

*Ernst + Young LLP*

October 13, 2008

# West Virginia Board of Risk and Insurance Management

## Management's Discussion and Analysis

Year Ended June 30, 2008

### 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, 2008, 2007, and 2006. 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. From December 2001 until novation to a physician's mutual on July 1, 2004, BRIM's program was expanded to include providing medical malpractice insurance to private sector health care providers (referred to hereafter as the House Bill 601 Program). The hospitals that were nonrenewed in 2003 are still being managed by BRIM for claims that were made during the period they were insured.

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with 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.

## West Virginia Board of Risk and Insurance Management

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

#### FINANCIAL HIGHLIGHTS

The following tables summarize the financial position and the results of operations as of and for the years ended June 30, 2008, 2007, and 2006 (in thousands):

	2008	2007	2006	Change 2008–2007		Change 2007–2006	
				Amount	Percent	Amount	Percent
Cash	\$ 30,595	\$ 33,083	\$ 41,756	\$ (2,488)	(8)%	\$ (8,673)	(21)%
Advance deposits with carrier/trustee	158,436	115,836	84,304	42,600	37	31,532	37
Receivables	1,439	2,392	1,086	(953)	(40)	1,306	120
Total current assets	190,470	151,311	127,146	39,159	26	24,165	19
Noncurrent investments	109,325	117,127	105,465	(7,802)	(7)	11,662	11
Total assets	299,795	268,438	232,611	31,357	12	35,827	15
Estimated claim expense	50,693	50,851	46,765	(158)	0	4,086	9
Unearned premiums	7,705	8,659	10,892	(954)	(11)	(2,233)	(21)
Agent commissions payable	1,621	1,985	2,014	(364)	(18)	(29)	(1)
Accrued expenses	559	483	625	76	16	(142)	(23)
Total current liabilities	60,578	61,978	60,296	(1,400)	(2)	1,682	3
Estimated claim expense	111,535	108,713	127,308	2,822	3	(18,595)	(15)
Compensated absences	52	200	163	(148)	(74)	37	23
Total noncurrent liabilities	111,587	108,913	127,471	2,674	2	(18,558)	(15)
Total liabilities	172,165	170,891	187,767	1,274	1	(16,876)	(9)
Net assets:							
Restricted	33,634	31,117	26,277	2,517	8	4,840	18
Unrestricted	93,996	66,430	18,567	27,566	41	47,863	258
Net assets	\$ 127,630	\$ 97,547	\$ 44,844	\$ 30,083	31	\$ 52,703	118

## West Virginia Board of Risk and Insurance Management

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

	2008	2007	2006	Change 2008–2007		Change 2007–2006	
				Amount	Percent	Amount	Percent
Premiums	\$ 72,986	\$ 80,248	\$ 82,824	\$ (7,262)	(9)%	\$ (2,576)	(3)%
Less excess coverage	<u>(6,394)</u>	<u>(6,151)</u>	<u>(4,145)</u>	<u>(243)</u>	<u>(4)</u>	<u>(2,006)</u>	<u>(48)</u>
Net operating revenues	<b>66,592</b>	74,097	78,679	(7,505)	(10)	(4,582)	(6)
Claims and claims adjustment expense	<b>42,982</b>	35,136	37,076	7,846	22	(1,940)	(5)
General and administrative	<b>4,247</b>	4,305	4,180	(58)	(1)	125	3
Total operating expenses	<u>47,229</u>	<u>39,441</u>	<u>41,256</u>	<u>7,788</u>	<u>20</u>	<u>(1,815)</u>	<u>(4)</u>
Operating income	<b>19,363</b>	34,656	37,423	(15,293)	(44)	(2,767)	(7)
Nonoperating revenues:							
Investment income	<b>10,512</b>	18,022	6,866	(7,510)	(42)	11,156	162
Financing income	<b>30</b>	25	28	5	20	(3)	(11)
Other postemployment benefits	<b>30</b>	–	–	30	–	–	–
Total nonoperating revenues, net	<u>10,572</u>	<u>18,047</u>	<u>6,894</u>	<u>(7,475)</u>	<u>(41)</u>	<u>11,153</u>	<u>162</u>
Changes in net assets	<b>29,935</b>	52,703	44,317	(22,768)	(43)	8,386	19
Total net assets – beginning	<b>97,547</b>	44,844	527	52,703	118	44,317	8,409
Change in accounting principle for other postemployment benefits	<b>148</b>	–	–	148	–	–	–
Total net assets – beginning, adjusted	<u>97,695</u>	<u>44,844</u>	<u>527</u>	<u>52,851</u>	<u>–</u>	<u>44,317</u>	<u>–</u>
Total net assets – end	<u><b>\$ 127,630</b></u>	<u>\$ 97,547</u>	<u>\$ 44,844</u>	<u>\$ 30,083</u>	<u>31</u>	<u>\$ 52,703</u>	<u>118</u>
Total revenues	<u><b>\$ 77,164</b></u>	<u>\$ 92,144</u>	<u>\$ 85,573</u>	<u>\$ (14,980)</u>	<u>(16)</u>	<u>\$ 6,571</u>	<u>8</u>
Total expenses	<u><b>\$ 47,229</b></u>	<u>\$ 39,441</u>	<u>\$ 41,256</u>	<u>\$ 7,788</u>	<u>20</u>	<u>\$ (1,815)</u>	<u>(4)</u>

## West Virginia Board of Risk and Insurance Management

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

#### **FINANCIAL HIGHLIGHTS**

- Total assets increased \$31,357,000 from 2008 to 2007 and \$35,827,000 from 2006 to 2007. The increases are due primarily to the additional advance deposits made in 2007 and 2008 under the advance deposit prefunding arrangement established in 2006 and the related returns on these deposits for 2007 and 2008. In addition, \$11,662,000 of the increase from 2006 to 2007 is due to increased returns on investments with the West Virginia Investment Management Board.
- Total liabilities increased \$1,274,000 from 2007 to 2008 and decreased \$16,876,000 from 2006 to 2007. The increase from 2007 to 2008 is primarily due to a slight increase in the estimated retained reserves. The decline for 2007 related to the continued effect of the two medical school's new deductible program on the estimated retained reserves for the related liability claims and the corresponding reductions reflected in the estimated unpaid claims and claims adjustment expense liability.
- The total net assets for 2008 are \$127,630,000 reflecting an overall increase of \$82,786,000 since 2006 when total net assets were \$44,844,000. This increase is the result of certain specified amounts that had been included in the premium rating program to address the recovery of the unfunded liability and that ultimately reduced the expected number of years required to eliminate the unfunded liability. The overall decrease in outstanding estimated claims reserves since 2006 also contributed to the increase in net assets. The combined impact of these factors resulted in a significant increase in the funds invested since 2006 that enhanced the overall investment returns for 2007 and 2008. Restricted net assets of \$33,634,000, \$31,117,000, and \$26,277,000 in 2008, 2007, and 2006, respectively, relates to mine subsidence coverage provided to the general public based on restrictions provided in the West Virginia State Code and to the medical malpractice tail coverage provided by the House Bill 601 Program.
- Total net operating revenues decreased from \$74,097,000 to \$66,592,000 from 2007 to 2008 due to the increased costs in the excess coverage for the boards of education and a further decrease in the premiums billed to the medical malpractice schools based on the projected reduction in the estimated losses to be incurred by the program. The program also requires a higher self-insured retention for each claim incurred by the program participants that increases their deductible to \$250,000 per claim. Total net operating revenues decreased from \$78,679,000 to \$74,097,000 from 2006 to 2007 due to the implementation of the revised medical malpractice claims deductible program and an overall reduction in premium rates charged to State and SB3 entities.

## West Virginia Board of Risk and Insurance Management

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

- Total net operating expenses increased from \$39,441,000 in 2007 to \$47,229,000 in 2008. The \$7,788,000 increase primarily relates to an increase in the claims and claims adjustment expense related to the liability line of business based on current year actuarial estimates. The decrease in net operating expense from \$41,256,000 in 2006 to \$39,441,000 in 2007 related to the overall reduction in the claims and claims adjustment expense primarily relating to the medical malpractice and general liability programs.
- Nonoperating revenues have fluctuated in the past three years. There was a \$7,475,000 reduction from 2007 to 2008 and an \$11,153,000 increase from 2006 to 2007. These fluctuations relate to investment returns and valuation changes resulting from marking investment holdings to market.
- Total revenues and total expenses from 2008 to 2007 and from 2006 to 2007 have primarily fluctuated due to the claims and claims adjustment liability and investment market returns. See the above explanations for additional information.

# West Virginia Board of Risk and Insurance Management

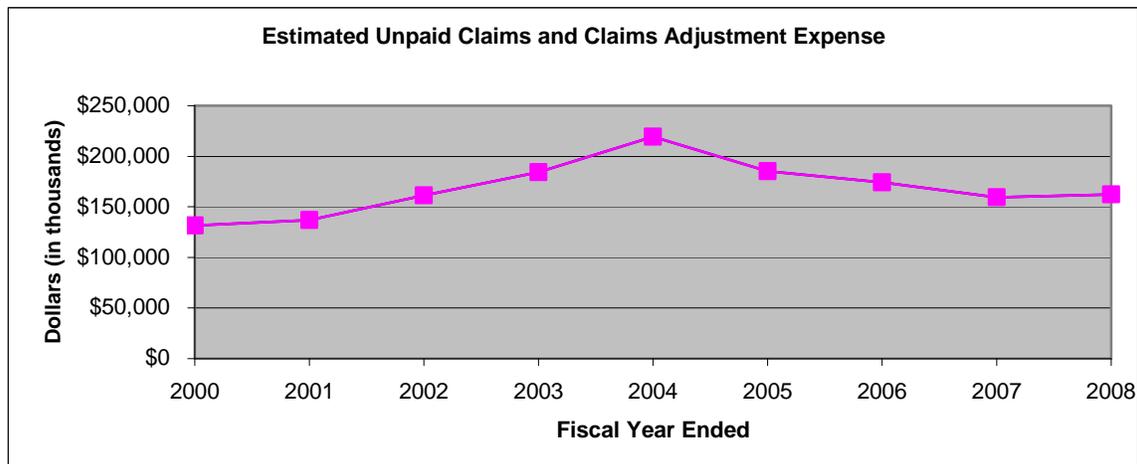
## Management's Discussion and Analysis (continued)

### OVERALL ANALYSIS

The overall condition of BRIM has improved from the prior year. Proper premium assessments, investment earnings, aggressive risk management, and the stability in the estimated claims liability have allowed BRIM to further increase the net assets for this year, reflecting net assets of \$127,630,000 at June 30, 2008. BRIM implemented and continues to strictly adhere 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 2007 to 2008, the liability for unpaid claims increased from \$159,564,000 to \$162,228,000. The chart below shows the estimated unpaid claims and claims adjustment expense liability for fiscal years 2000 through 2008.



#### House Bills 601 and 2122

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

# West Virginia Board of Risk and Insurance Management

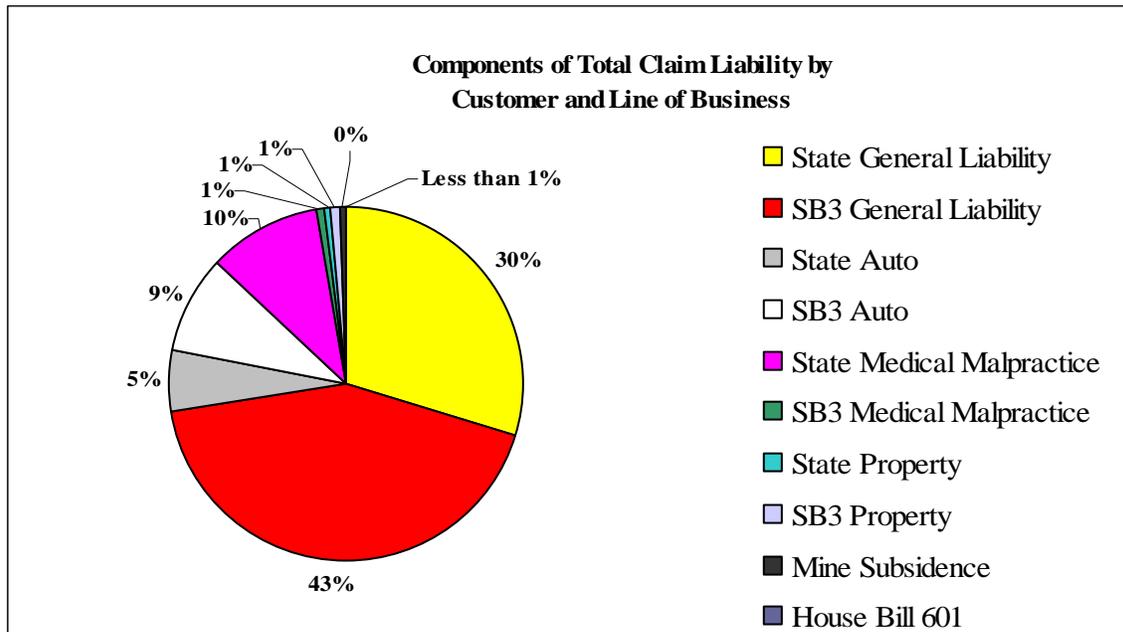
## Management's Discussion and Analysis (continued)

During the legislative session in early 2003, House Bill 2122 was enacted. This bill allowed for 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 "runoff" mode, and BRIM continues to service and pay claims that were made during the effective period or claims relating to tail coverage purchased. Tail coverage was offered to all terminated insurers in House Bill 601. This tail coverage covers the insured on any IBNR claims during the policy period.

### 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 \$162,228,000. 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.



There is no long-term debt activity.

## West Virginia Board of Risk and Insurance Management

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

#### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

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

During the past three years, BRIM has eliminated the deficiency in net assets for all of the lines of business for the programs it oversees. 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 ensure that 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 insurers.

##### **Investment Return**

In 2008, BRIM sold \$8,000,000 of its holdings with the West Virginia Investment Management Board (WVIMB) in order to provide a portion of the funding for the current years advance deposits requirements. In 2007, BRIM maintained the funds invested with the WVIMB at their 2006 levels and reinvested all of the earnings on the funds for the fiscal year. All BRIM funds held by the WVIMB are invested for the benefit of the pool participants. BRIM invests and withdraws its monies from these funds as needed primarily for operating and short-term cash requirements. During fiscal year 2006, BRIM transferred approximately \$43,000,000 of its funds invested with WVIMB to interest-earning deposits held in a short-term investment pool maintained by the West Virginia Bureau of Treasury Investments (BTI). The account is called the "short-term" fund. Investment income has increased each year since 2004, due in large part to increasing interest rates on shorter term funds and the overall improvement in the investment markets.

## West Virginia Board of Risk and Insurance Management

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

#### **Premium Determination Process**

BRIM has properly maintained premiums across all lines of business for the past several years based on relevant exposure data and claims loss history. Charging proper premiums, consistent with the commercial industry, has enabled BRIM to adequately cover losses. Further, fiscal years 2008 and 2007 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

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,310	\$ 23,746
Advance deposits with insurance company and trustee	158,436	115,836
Receivables:		
Premiums due from State agencies	789	663
Premiums due from other entities	394	535
Other	585	1,519
Less allowance for doubtful accounts	(701)	(697)
Net receivables	<u>1,067</u>	<u>2,020</u>
Restricted cash and cash equivalents	11,285	9,337
Restricted receivables:		
Premiums due from other entities	372	372
Total current assets	<u>\$ 190,470</u>	<u>151,311</u>
Noncurrent assets:		
Investments	85,851	93,646
Restricted investments	23,474	23,481
Total noncurrent assets	<u>109,325</u>	<u>117,127</u>
Total assets	<u>299,795</u>	<u>268,438</u>
<b>Liabilities</b>		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	50,693	50,851
Unearned premiums	7,705	8,659
Agent commissions payable	1,621	1,985
Accrued expenses and other liabilities	559	483
Total current liabilities	<u>60,578</u>	<u>61,978</u>
Estimated unpaid claims and claims adjustment expense, net of current portion	111,535	108,713
Compensated absences	52	200
Total noncurrent liabilities	<u>111,587</u>	<u>108,913</u>
Total liabilities	<u>172,165</u>	<u>170,891</u>
Net assets:		
Restricted	33,634	31,117
Unrestricted	93,996	66,430
Net assets	<u>\$ 127,630</u>	<u>\$ 97,547</u>

*See accompanying notes.*

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Assets

	<b>Years Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>	
<b>Operating revenues</b>		
Premiums	\$ 72,986	\$ 80,248
Less excess coverage/reinsurance premiums	<u>(6,394)</u>	<u>(6,151)</u>
Net operating revenues	<b>66,592</b>	74,097
 <b>Operating expenses</b>		
Claims and claims adjustment expense	<b>42,982</b>	35,136
General and administrative	<u>4,247</u>	<u>4,305</u>
Total operating expenses	<u><b>47,229</b></u>	<u>39,441</u>
 Operating income	 <b>19,363</b>	 34,656
 <b>Nonoperating revenues</b>		
Investment income	<b>10,512</b>	18,022
Financing income	<b>30</b>	25
On behalf contributions	<u><b>30</b></u>	<u>—</u>
Net nonoperating revenues	<u><b>10,572</b></u>	<u>18,047</u>
Changes in net assets	<b>29,935</b>	52,703
 Total net assets, beginning of year	 <b>97,547</b>	 44,844
Change in accounting principle for other postemployment benefits	<b>148</b>	—
Total net assets, beginning of year adjusted	<u><b>97,695</b></u>	<u>44,844</u>
Total net assets, end of year	<u><b>\$ 127,630</b></u>	<u>\$ 97,547</u>

*See accompanying notes.*

# West Virginia Board of Risk and Insurance Management

## Statements of Cash Flows

	<b>Years Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Receipts from customers	\$ 66,481	\$ 70,554
Payments to employees	(1,486)	(1,246)
Payments to suppliers	(2,909)	(3,192)
Payments to claimants	(40,318)	(49,645)
Deposits to advance deposit with insurance company and trustee	(81,277)	(78,167)
Withdrawals from advance deposit with insurance company and trustee	38,676	46,639
Net cash used in operating activities	(20,833)	(15,057)
<b>Noncapital financing activities</b>		
Financing earnings	30	25
Net cash provided by noncapital financing activities	30	25
<b>Investing activities</b>		
Purchase of investments	(31,883)	(6,496)
Sale of investments	35,346	4,705
Net investment earnings	14,852	8,150
Net cash provided by investing activities	18,315	6,359
Net decrease in cash and cash equivalents	(2,488)	(8,673)
Cash and cash equivalents, beginning of year	33,083	41,756
Cash and cash equivalents, end of year	\$ 30,595	\$ 33,083
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 19,310	\$ 23,746
Restricted cash and cash equivalents	11,285	9,337
	\$ 30,595	\$ 33,083

West Virginia Board of Risk and Insurance Management

Statements of Cash Flows (continued)

	<b>Years Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating income to net cash used in operating activities</b>		
Operating income	<b>\$ 19,363</b>	\$ 34,656
<b>Adjustments to reconcile operating income to net cash used in operating activities</b>		
Increase in advanced deposits	<b>(42,600)</b>	(31,531)
Decrease (increase) in premiums receivable, net	<b>847</b>	(1,308)
Increase (decrease) in estimated liability for unpaid claims and claims adjustment expense	<b>2,664</b>	(14,508)
Decrease in other liabilities	<b>(153)</b>	(133)
Decrease in unearned premiums	<b>(954)</b>	(2,233)
Total adjustments	<b>(40,196)</b>	(49,713)
Net cash used in operating activities	<b>\$ (20,833)</b>	\$ (15,057)
<b>Noncash activities</b>		
(Decrease) increase in fair value of investments	<b>\$ (4,339)</b>	\$ 9,872
On behalf contributions	<b>\$ 30</b>	\$ —

*See accompanying notes.*

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements

June 30, 2008

### 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 1,000 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 advance deposits and BRIM is not indemnified by the insurance company for any losses. Under this plan, the insurance company is compensated for its claim-handling services by a fixed fee negotiated on a yearly basis.

From January 1, 1971 through June 30, 1976, the liability coverage provided by BRIM 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

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### 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 incur indemnity claim losses. BRIM pays all allocated loss adjustment expenses (ALAE), which are the costs incurred in the reporting, investigation, adjustment, defense, and settlement of claims that are attributable to a specific, individual claim.

Prior to July 1, 1990, BRIM retained the first \$25,000 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 health care providers (the House Bill 601 Program). On July 1, 2004, all physicians novated to the newly formed West Virginia Physicians' Mutual Insurance Company (WVPMIC). BRIM 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 claims and for any claims that may be submitted on any tail policies that were purchased.

In March 2004, the West Virginia Legislature passed House Bill 4740, creating a Patient Injury Compensation Fund. The purpose of this fund is to provide fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of previously enacted tort reforms. This fund provides relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several liabilities. BRIM serves as third-party administrator for this fund. The capitalization of the fund comes from the State's tobacco settlement fund. The activity for this fund is not reflected in BRIM's financial statements. The activity for this fund is reflected in the State's financial statements.

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **1. General (continued)**

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 if any are monitored by the State's budgetary review process in total on an unclassified basis. Each year's appropriation lapses at year-end. The remaining operations of BRIM are subject to a nonappropriated budgetary review process.

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

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

As an enterprise fund, BRIM's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with 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.

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

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

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, 2008 and 2007, 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 of America.

#### **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 Board of Treasury Investments (BTI). Such funds are available to BRIM with overnight notice. Interest income from these investments is prorated to BRIM at rates specified by the BTI based on the balance of BRIM's deposits maintained in relation to the total deposits of all State agencies participating in the pool. The book carrying value of the amounts on deposit with the BTI, which approximate estimated fair value, was \$27,026,000 and \$29,678,000 at June 30, 2008 and 2007, respectively.

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

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

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

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

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

#### **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 BRIM at rates specified by WVIMB based on the balance of BRIM’s deposits maintained in relation to the total deposits of all State agencies participating in the pool.

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

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Compensated Absences**

Employees fully vest in all earned but unused annual leave, and BRIM accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer-paid premiums for postemployment health care coverage through the West Virginia Retiree Health Benefit Trust Fund (RHBT) or be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System (PERS).

#### **Unpaid Claims and Claims Adjustment Expense**

Utilizing an external actuary, management establishes the unpaid claims and claims adjustment expense liability based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but not settled and of claims that have been incurred but not reported (IBNR). Such estimates are based on industry statistical loss reserve information as well as BRIM historical data, including case-basis estimates of losses reported, actuarial projections of loss development of IBNR claims, and estimates of expenses for investigation and adjustment of all incurred and unadjusted losses (and estimates of expected 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

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

financial statements. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors; such adjustments are included in current operations. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. The claims and claims adjustment expense category on the statements of revenues, expenses, and changes in net assets includes estimated incurred claim costs, allocated loss adjustment expenses, and unallocated claims adjustment expenses.

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

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

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

#### **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.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

#### 3. Deposit and Investment Risk Disclosures

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

#### Cash Equivalents

##### *WV Money Market Pool (formerly the Cash Liquidity Pool)*

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the weighted average credit ratings of the cash liquidity pool's investments (in thousands):

Security Type	June 30, 2008				June 30, 2007			
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Moody's	S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	\$ 658,879	27.94%	P1	A-1	\$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	40,000	1.70	Aaa	AAA	98,999	4.76
	Aa3	AA	20,000	0.85	Aa3	AA	20,001	0.96
	-	-	-	-	Aa3	A	23,002	1.11
	-	-	-	-	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.14	Aa2	A	27,000	1.30
	Aa1	AA	71,000	3.01	Aa1	AA	77,023	3.71
			<u>158,000</u>	<u>6.70</u>			<u>261,025</u>	<u>12.56</u>
U.S. agency bonds	Aaa	AAA	254,019	10.77	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	406,426	17.23	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	147,001	6.23	P1	A-1	76,500	3.68
Nonnegotiable certificates of deposit	-	-	-	-	NR	NR	50,000	2.41
			<u>147,001</u>	<u>6.23</u>			<u>126,500</u>	<u>6.09</u>
U.S. agency discount notes	P1	A-1	212,924	9.03	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	150,058	6.36	Aaa	AAA	185	0.01
Repurchase agreements								
U.S. Treasury notes	Aaa	AAA	62,265	2.64	-	-	-	-
U.S. agency notes	Aaa	AAA	308,898	13.10	Aaa	AAA	246,821	11.88
			<u>371,163</u>	<u>15.74</u>			<u>246,821</u>	<u>11.88</u>
			<u>\$ 2,358,470</u>	<u>100.00%</u>			<u>\$ 2,077,831</u>	<u>100.00%</u>

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

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

##### *Concentration of Credit Risk*

West Virginia statutes prohibit the WV Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2008 and 2007, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

##### *Custodial Credit Risk*

At June 30, 2008 and 2007, the WV Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the BTI. Securities lending collateral is invested in the lending agent's money market fund in BTI's name.

##### *Interest Rate Risk*

The overall weighted average maturity (WAM) of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides the WAM for the various asset types in the WV Money Market Pool (in thousands):

<b>Investment Type</b>	<b>June 30, 2008</b>		<b>June 30, 2007</b>	
	<b>Carrying Value</b>	<b>WAM Days</b>	<b>Carrying Value</b>	<b>WAM Days</b>
Repurchase agreements	\$ 371,163	1	\$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	150,058	1	185	1
Total rated investments	<b>\$ 2,358,470</b>	<b>40</b>	<b>\$ 2,077,831</b>	<b>48</b>

BRIM's amount invested in the WV Money Market Pool of \$32,339,000, included in cash and cash equivalents, at June 30, 2008, and \$36,281,000 at June 30, 2007, represents approximately 1.4% and 1.6%, respectively, of total investments in this pool.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

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

*Foreign Currency Risk*

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

**Investments**

***Board of Risk and Insurance Management Fund***

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

*Investment Objectives*

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

*Asset Allocation*

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

<u>Asset Class</u>	<u>Policy Target</u>
Domestic large cap equity	10%
International equity	<u>10</u>
<b>Total equity</b>	<b>20</b>
<b>Domestic fixed income</b>	<b>60</b>
<b>Hedge fund</b>	<b>20</b>
Cash and cash equivalents	0

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

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

*Asset Value*

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

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Domestic large cap equity	\$ 9,662	\$ 10,725	\$ 7,301	\$ 9,970
Domestic non-large cap equity	2,695	1,792	4,042	6,083
International equity	3,260	6,473	1,641	5,708
International nonqualified	1,298	1,970	1,553	2,418
Fixed income	51,619	53,775	53,187	55,734
Fixed income cash liquidity pool	30,440	34,585	34,715	37,209
Other	7	5	5	5
	<b>\$ 98,981</b>	<b>\$ 109,325</b>	<b>\$ 102,444</b>	<b>\$ 117,127</b>

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

	2008	2007
Investment income:		
Interest income including realized gains/losses on sale of securities	\$ 14,851	\$ 8,150
Unrealized (loss) gain on investments	(4,339)	9,872
Total investment income	<b>\$ 10,512</b>	<b>\$ 18,022</b>

As a result of the recent matters affecting the global credit markets, many of BRIM's investments have experienced a decline in value subsequent to June 30, 2008. As previously mentioned, BRIM's investments are primarily recorded at fair value in the accompanying financial statements. Accordingly, the subsequent decline in fair value of investments is recognized subsequent to June 30 in the period the change in fair value occurs.

WVIMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

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

##### *Asset Class Risk Disclosures*

##### Large Cap Domestic Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2008 and 2007, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. BRIM's amount invested in the large cap domestic pool of \$10,725,000 and \$9,970,000 at June 30, 2008 and 2007, respectively, represents approximately 0.6% and 0.5% of total investments in this pool.

##### Non-Large Cap Domestic Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2008 and 2007, 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 \$1,792,000 and \$6,083,000 at June 30, 2008 and 2007, respectively, represents approximately 0.3% and 0.5% of total investments in this pool.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

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

##### *International Equity Pool*

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

Currency	June 30, 2008			June 30, 2007		
	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian dollar	\$ 56,458,401	\$ 1,147,727	\$ 57,606,128	\$ 46,223,161	\$ 511,319	\$ 46,734,480
Brazil cruzeiros real	78,980,550	377,270	79,357,820	45,999,956	2	45,999,958
British pound	169,390,722	2,625,082	172,015,804	140,476,291	302,597	140,778,888
Canadian dollar	87,262,255	1,994,596	89,256,851	60,122,086	2,566,263	62,688,349
Czech Koruna	1,519,907	–	1,519,907	–	–	–
Danish krone	5,533,777	99,697	5,633,474	3,851,377	63,533	3,914,910
Euro	338,300,401	1,682,586	339,982,987	266,416,058	3,821,725	270,237,783
Hong Kong dollar	91,548,567	2,012,170	93,560,737	79,936,951	613,522	80,550,473
Hungarian forint	18,046,560	182,258	18,228,818	12,073,967	114,414	12,188,381
Indian rupee	4,653,903	–	4,653,903	13,748,116	–	13,748,116
Indonesian rupiah	10,703,375	–	10,703,375	–	–	–
Israeli shekel	11,519,751	54,371	11,574,122	17,010,706	25,201	17,035,907
Japanese yen	190,163,595	4,773,663	194,937,258	125,202,715	2,100,776	127,303,491
Malaysian ringgit	10,536,586	1,212,918	11,749,504	8,346,813	184,506	8,531,319
Mexican new peso	23,344,620	406,186	23,750,806	22,321,990	50,806	22,372,796
New Taiwan dollar	73,448,408	363,885	73,812,293	68,582,811	51,895	68,634,706
New Zealand dollar	2,281,221	35,031	2,316,251	3,476,562	39,666	3,516,228
Norwegian krone	27,781,461	(707,346)	27,074,115	20,171,136	53,776	20,224,912
Pakistani Rupee	2,159,612	–	2,159,612	–	–	–
Philippine peso	2,637,913	–	2,637,913	7,226,908	–	7,226,908
Polish Zloty	3,909,848	230,158	4,140,006	–	–	–
Singapore dollar	40,965,990	288,581	41,254,571	32,274,713	511,686	32,786,399
South African rand	39,201,393	43,223	39,244,616	15,480,425	16,520	15,496,945
South Korean won	120,845,929	11,380	120,857,309	97,467,405	223,670	97,691,075
Swedish krona	26,805,371	406,838	27,212,209	26,486,686	772,632	27,259,318
Swiss franc	67,886,106	1,186,931	69,073,037	49,566,642	625,996	50,192,638
Thailand baht	11,858,415	2,244	11,860,659	15,602,098	–	15,602,098
Turkish Lira	23,039,547	–	23,039,547	–	–	–
<b>Total</b>	<b>\$ 1,540,784,184</b>	<b>\$ 18,429,449</b>	<b>\$ 1,559,213,635</b>	<b>\$ 1,178,065,573</b>	<b>\$ 12,650,505</b>	<b>\$ 1,190,716,078</b>

This table excludes securities held by the pool that are denominated in U.S. dollars. The market value of these U.S. dollar denominated securities is \$131,021,000 and \$146,847,000 at June 30, 2008 and 2007, respectively. BRIM's amount invested in the international equity pool of \$6,473,000 and \$5,708,000 at June 30, 2008 and 2007, respectively, represents approximately 0.4% and 0.5% of total investments in this pool.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

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

*International Nonqualified Pool*

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2008 and 2007, was \$57,888,000 and \$63,696,000, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. BRIM's amount invested in the international nonqualified pool of \$1,970,000 and \$2,418,000 at June 30, 2008 and 2007, respectively, represents approximately 3.4% and 3.8% of total investments in this pool.

*Fixed Income Pool*

*Credit Risk*

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

Security Type	June 30, 2008				June 30, 2007			
	Moody's	S&P	Fair Value	Percent of Assets	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	<b>Baa</b>	<b>BBB</b>	<b>\$ 609,696,835</b>	<b>22.0%</b>	Baa	BBB	\$ 407,966,034	17.2%
U.S. Treasury bonds and notes	<b>Aaa</b>	<b>AAA</b>	<b>76,318,725</b>	<b>2.7</b>	Aaa	AAA	261,067,200	11.0
Corporate asset-backed securities	<b>Aaa</b>	<b>AAA</b>	<b>137,308,217</b>	<b>5.0</b>	Aaa	AAA	80,498,053	3.4
Agency mortgage-backed securities	<b>Aaa</b>	<b>AAA</b>	<b>234,846,187</b>	<b>8.5</b>	Aaa	AAA	46,473,560	2.0
Agency bonds	<b>Aaa</b>	<b>AAA</b>	<b>5,282,195</b>	<b>0.2</b>	Aa	AA	38,485,188	1.6
Agency discount notes	<b>P1</b>	<b>A-1</b>	<b>17,537,793</b>	<b>0.6</b>	P1	A-1	2,514,911	0.1
Money market funds	<b>Aaa</b>	<b>AAA</b>	<b>135,041,247</b>	<b>4.9</b>	Aaa	AAA	27,039,310	1.1
Total rated investments			<b><u>\$1,216,031,199</u></b>	<b>43.9%</b>			<b><u>\$ 864,044,256</u></b>	<b>36.4%</b>

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

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

At June 30, 2008, unrated securities include commingled investment pools of \$1,549,051,012 swaps, options and swaptions valued at \$(4,248,293), and cash of \$11,984,018 pledged to brokers as collateral. These securities represent 56.1% of the fair value of the pool's investments. For June 30, 2007, unrated securities include commingled investment pools of \$1,512,436,613 and an interest rate swap valued at \$(1,886,869).

##### *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. At June 30, 2008 and 2007, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

##### *Custodial Credit Risk*

At June 30, 2008 and 2007, the Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's money market fund.

##### *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	June 30, 2008		June 30, 2007	
	Fair Value	Modified Duration (years)	Fair Value	Modified Duration (years)
Commingled investment pools	\$ 1,549,051,012	3.3	\$ 1,512,436,613	4.7
Corporate notes and bonds	609,696,835	6.2	407,966,034	6.5
U.S. Treasury notes and bonds	76,318,725	7.9	261,067,200	6.6
Corporate asset-backed securities	137,308,217	7.0	80,498,053	8.3
Agency mortgage-backed securities	234,846,187	10.8	46,473,560	10.6
Agency bonds	5,282,195	8.5	38,485,188	4.8
Agency discount notes	17,537,793	0.5	2,514,911	0.7
Money market fund	135,041,247	0.0	27,039,310	0.0
Total assets	\$ 2,765,082,211	5.4	\$ 2,376,480,869	5.4

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

#### **3. Deposit and Investment Risk Disclosures (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, 2008 and 2007, the fixed income pool held \$372,154,404 and \$126,971,613, respectively, of these securities. This represents approximately 13% and 5% of the value of the fixed income pools.

BRIM's amount invested in the fixed income pool of \$53,775,000 and \$55,734,000 at June 30, 2008 and 2007, respectively, represents approximately 1.9% and 2.3% of total investments in this pool.

#### *Foreign Currency Risk*

None of the securities held by the Fixed Income pool are exposed to foreign currency risk. However, the pool does have futures, options, swaps, and foreign exchange futures that are denominated in foreign currencies. Additionally, the pool has indirect exposure to foreign currency risk through its ownership interest in certain of the commingled investment pools. Approximately \$148,326,000, or 10%, of the commingled investment pools hold substantially all of their investments in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2008, the WVIMB was in compliance with this limitation.

#### *Fixed Income Nonqualified Pool*

This pool holds positions of institutional mutual funds with a combined value of \$474,561,035 and \$420,696,395 at June 30, 2008 and 2007, respectively, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.6 years and 5.7 years at June 30, 2008 and 2007, respectively. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

BRIM's amount invested in the fixed income nonqualified pool of \$34,585,000 and \$37,209,000 at June 30, 2008 and 2007, respectively, represents approximately 7.3% and 8.8% of total investments in this pool.

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

**4. Unpaid Claims and Claims Adjustment Expense Liability**

BRIM establishes an estimated liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in the estimated liability for the fiscal and policy years ended June 30:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Unpaid claims and claims adjustment expense liability at beginning of year	<b>\$ 159,564</b>	\$ 174,073
Incurred claims and claims adjustment expense:		
Provision for insured events of the current year	<b>57,246</b>	56,081
Decrease in provision for insured events of prior years	<b>14,264</b>	20,945
Total incurred claims and claims adjustment expense	<b>42,982</b>	35,136
Payments:		
Claims and claims adjustment expense attributable to insured events of the current year	<b>8,352</b>	12,416
Claims and claims adjustment expense attributable to insured events of prior years	<b>31,966</b>	37,229
Total payments	<b>40,318</b>	49,645
Total unpaid claims and claims adjustment expense liability at end of year	<b>\$ 162,228</b>	\$ 159,564

If the unpaid claims and claims adjustment expense liability were discounted using a 4% discount factor for 2008 and 2007 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 \$15,511,000 and \$15,159,000 for fiscal years 2008 and 2007, respectively. The overall unpaid claim liability number includes a provision for allocated and unallocated claims adjustment expense.

**5. Employee Benefit Plans**

*Pension Benefits*

All full-time BRIM employees are eligible to participate in PERS, a cost-sharing, multiple-employer public employee retirement system. Employees who retire at or after age 60 with 5 or more years of contributory service or who retire at or after age 55 and have completed 25 years

West Virginia Board of Risk and Insurance Management

Notes to Financial Statements (continued)

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

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 10.5% 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:

	2008	2007	2006
BRIM contributions (10.5%)	\$ 103,252	\$ 100,981	\$ 95,732
Employee contributions (4.5%)	44,250	43,277	41,028
Total contributions	\$ 147,502	\$ 144,258	\$ 136,760

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

***Other Postemployment Benefits***

BRIM participates in a cost-sharing multiemployer defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPB) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston West Virginia 25305.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

#### 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 RHBT. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for BRIM. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

Beginning July 1, 2007, BRIM adopted GASB *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) which provides guidance on all aspects of other postemployment benefit reporting by employers. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) (including health care and life insurance) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The GASB statement is based on the premise that the “costs” of employee services should be reported during the periods when the services are rendered. For “employer” OPEB reporting, the State and BRIM report “expense” on an accrual basis in the amount of the “annual required contribution” and a “liability” for the amount of the “annual required contribution” that was not actually paid.

Historically, BRIM recorded compensated absences under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, and recorded a liability for the conversion of sick leave into OPEB health care benefits, which was included as part of the compensated absences liability. Under GASB 45, the conversion of sick leave into OPEB health care benefits is now required to be accounted for as part of the OPEB obligation. In conjunction with the adoption of GASB 45, which was adopted prospectively, BRIM adjusted the net asset balance as of July 1, 2007, to account for the effect of this change in accounting principle by reducing the OPEB portion of the compensated absences liability recorded under the old methodology to zero.

(In Thousands)

Net assets balance as reported June 30, 2007	\$ 97,547
Cumulative effect of change in accounting principle for other postemployment benefits	148
Net asset balance as adjusted July 1, 2007	<u>\$ 97,695</u>

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### 5. Employee Benefit Plans (continued)

Legislation requires the RHBT to determine through an actuarial study, the Annual Required Contribution (ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC is allocated to respective cost-sharing employers including BRIM who are required by law to fund at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. Based on the actuarial study completed, the annual required contribution rates were determined for the fiscal year ended June 30, 2008. The estimated liability for sick leave postemployment benefits approximating \$35,000 and \$200,000, respectively, as of June 30, 2008 and 2007, is included in accrued expenses and other liabilities in the statements of net assets. BRIM's OPEB expense for fiscal year 2008 was approximately \$114,000 of which approximately \$35,000 is unpaid and recorded as a liability at June 30, 2008. The State on BRIM's behalf has paid \$30,000 towards the ARC for fiscal year 2008. BRIM's policy is to fund at least the minimum annual premier component of the ARC. Prior to the adoption of GASB 45, the benefit was funded on a pay-as-you-go basis. There are currently 23 employees eligible to receive such benefits.

### 6. Lease Arrangement

In September 2006, the State renewed the lease arrangement on behalf of BRIM for office space occupied by BRIM with a monthly lease payment of \$9,876 and a term beginning on February 1, 2007, and ending on January 31, 2012. On July 1, 2006, BRIM entered into a vehicle lease arrangement with the Department of Administration, Purchasing Division with a monthly lease payment of \$1,000. The lease includes two Jeep Liberty vehicles for a term of five years beginning on July 1, 2006 and ending on June 30, 2011.

Operating lease expense approximated \$131,000 for the years ended June 30, 2008 and 2007, relating to these arrangements. Future minimum lease payments under these operating lease arrangements are as follows for years ending June 30:

2009	\$131,000
2010	\$131,000
2011	\$131,000
2012	\$69,000

# West Virginia Board of Risk and Insurance Management

## Notes to Financial Statements (continued)

### **7. Transactions With Primary Government and Component Units**

Premium revenues derived from billings to State entities funded with special revenue funds and component units of the primary government approximated \$36,258,000 and \$39,091,000 for the years ended June 30, 2008 and 2007, respectively.

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 \$2,777,000 and \$3,155,000 for the years ended June 30, 2008 and 2007, respectively. The Fund is not included in BRIM’s financial statements, but is included in the General Fund of the State.

### **8. Premium Tax Surcharge Contingency**

Historically, BRIM paid premium tax surcharges to insurance carriers. During 2007, the West Virginia Insurance Commissioner provided information to management that BRIM may be exempt from paying these premium tax surcharges and may be able to seek refunds of amounts previously paid to carriers and avoid paying such surcharges in the future.

Management is currently evaluating this matter with counsel and insurance carriers. The ultimate outcome of this matter, including potential recoveries and or future savings cannot be estimated at the present time. Accordingly, no recoveries have been recorded in the accompanying financial statements.

### **9. 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. For the years ended June 30, 2008 and 2007, BRIM recorded reinsurance recoverables from these reinsurers totaling \$95,000 and \$534,000, respectively.

## West Virginia Board of Risk and Insurance Management

### Notes to Financial Statements (continued)

#### **10. Risk Management**

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

Health insurance coverage for BRIM's employees is obtained through its participation in health insurance coverage offered by the West Virginia Public Employees Insurance Agency (PEIA). PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State and various related State and non-State agencies. BRIM had coverage through December 31, 2005, for job-related injuries through its participation in the West Virginia Workers' Compensation Fund, a public entity risk pool. Effective January 1, 2006, coverage was moved to Brickstreet Insurance as required by Senate Bill 1004. 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.

## Other Financial Information

# West Virginia Board of Risk and Insurance Management

## Ten-Year Claims Development Information (Unaudited)

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

	Fiscal and Policy Year Ended June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	<i>(In Thousands)</i>									
1) Premiums and investment revenues										
Earned	\$ 57,964	\$ 48,437	\$ 53,828	\$ 56,992	\$ 81,450	\$ 110,279	\$ 95,336	\$ 89,690	\$ 98,270	\$ 83,498
Ceded	1,557	1,553	1,629	1,866	3,126	3,801	3,912	4,145	6,151	6,394
Net earned	56,407	46,884	52,199	55,126	78,324	106,478	91,424	85,545	92,119	77,104
2) Unallocated expenses, including administrative fees paid to third-party claims administrators	6,336	8,590	6,471	7,315	11,168	14,332	8,301	8,894	8,536	8,045
3) Estimated incurred claims and claims adjustment expense, end of policy year:										
Incurred	40,152	47,920	46,867	60,302	83,642	94,279	65,674	58,491	59,678	59,246
Ceded	307	364	360	570	577	597	5	172	3,597	2,000
Net incurred	39,845	47,556	46,507	59,732	83,065	93,682	65,669	58,319	56,081	57,246
4) Paid (cumulative) claims and claims adjustment expense as of:										
End of policy year	7,895	10,068	8,547	11,077	11,746	13,799	9,134	10,097	12,416	8,352
One year later	11,401	16,859	15,168	14,834	25,194	55,414	16,901	17,547	16,942	
Two years later	18,193	24,900	16,778	20,028	50,292	61,987	25,283	23,291		
Three years later	26,556	37,110	28,352	35,464	56,354	72,727	33,505			
Four years later	34,084	41,278	35,596	43,356	59,777	78,617				
Five years later	40,313	47,658	37,884	46,518	62,406					
Six years later	43,379	50,474	39,585	49,116						
Seven years later	44,984	51,290	40,344							
Eight years later	45,920	51,728								
Nine years later	46,034									
5) Reestimated ceded claims and expenses	307	364	360	570	577	597	5	172	-	-
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of policy year	39,845	47,556	46,507	59,732	83,065	93,682	65,669	58,319	56,081	57,246
One year later	42,785	50,810	49,612	58,141	80,739	93,171	61,419	51,183	53,924	
Two years later	45,633	53,519	48,108	56,755	79,646	91,136	56,023	47,726		
Three years later	46,873	53,961	40,241	58,004	69,595	90,453	52,893			
Four years later	45,662	55,116	45,572	55,443	65,434	87,424				
Five years later	46,351	55,728	43,336	53,627	62,177					
Six years later	45,850	54,785	43,233	54,784						
Seven years later	44,726	53,473	42,893							
Eight years later	45,045	53,929								
Nine years later	44,520									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of policy year	4,675	6,373	(3,614)	(4,948)	(20,888)	(6,258)	(12,776)	(10,593)	(2,157)	-

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									
	2008					2007				
	Liability	Property	Mine Subsidence	House Bill 601	Total	Liability	Property	Mine Subsidence	House Bill 601	Total
	<i>(In Thousands)</i>									
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	\$ 156,121	\$ 2,099	\$ 983	\$ 361	\$ 159,564	\$ 168,837	\$ 2,921	\$ 1,539	\$ 776	\$ 174,073
Incurred claims and claims adjustment expense:										
Provision for insured events of the current fiscal year	53,910	2,806	530	–	57,246	50,230	5,215	636	–	56,081
(Decrease) increase in provision for insured events of prior fiscal years	(12,350)	(1,067)	(692)	(155)	(14,264)	(19,004)	(871)	(704)	(366)	(20,945)
Total incurred claims and claims adjustment expense	41,560	1,739	(162)	(155)	42,982	31,226	4,344	(68)	(366)	35,136
Payments:										
Claims and claims adjustment expense attributable to insured events of the current fiscal year	7,169	1,108	75	–	8,352	8,838	3,528	50	–	12,416
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	31,527	261	107	71	31,966	35,104	1,638	438	49	37,229
Total claims and claims adjustment expense payments	38,696	1,369	182	71	40,318	43,942	5,166	488	49	49,645
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	\$ 158,985	\$ 2,469	\$ 639	\$ 135	\$ 162,228	\$ 156,121	\$ 2,099	\$ 983	\$ 361	\$ 159,564



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# Statistical Section

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**John Amos Power Plant** – Located in Putnam County, West Virginia. This plant can produce a maximum capacity of 2,933 megawatts with its three-unit coal fired boilers.

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## Statistical Section Narrative

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

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

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

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

Schedule 3 – Top 10 State Agency Premiums and Top 20 Senate Bill 3  
Premiums for Fiscal Year 2008

Schedule 4 – Investment Income and Premium Revenue

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

Schedule 5 – Principal Employers Current Year and Nine Years Ago

Schedule 6 – Demographic and Economic Indicators Calendar Years 1999  
through 2008

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

Schedule 7 – Full-Time Equivalent Employees Fiscal Years 1999 through 2008

Schedule 8 – Claims Dollars Incurred by Customer Type for Fiscal Years 1999 through 2008

Schedule 9 – Losses Incurred by Coverage Fiscal Years 1999 through 2008

Schedule 10 – Industry Averages Compared to BRIM

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

Schedule 12 – Listing of Coverages in Effect for Fiscal Year 2008

## SCHEDULE 1

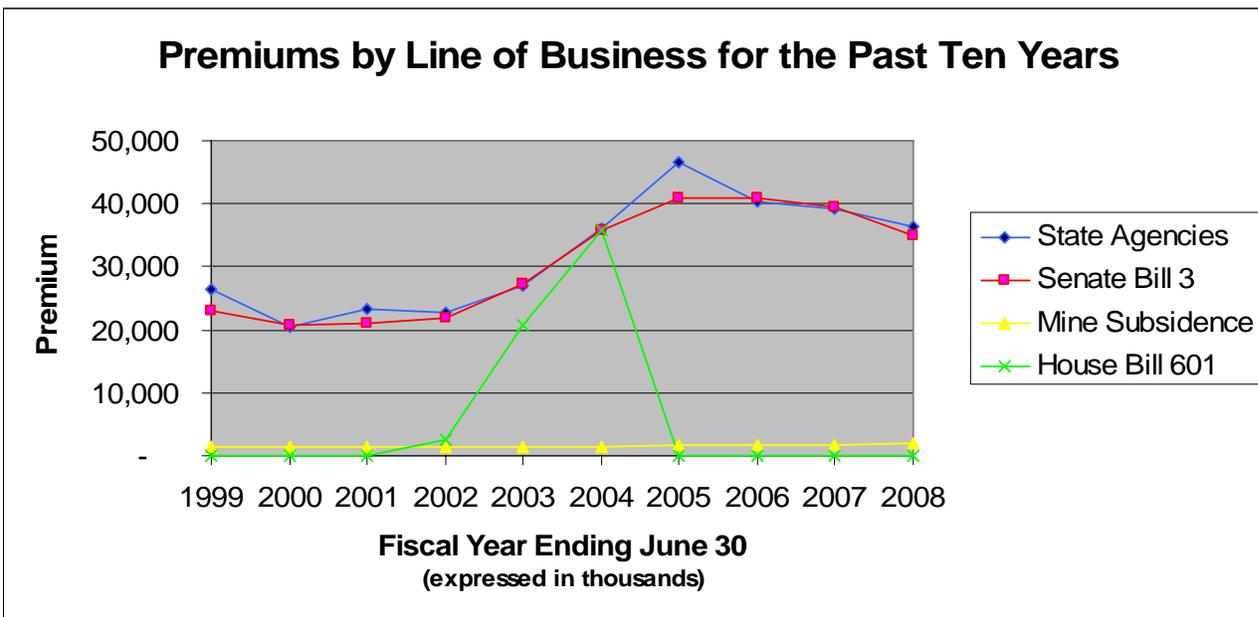
### Comparative Statement of Net Assets and Changes in Net Assets (Deficiency) Last Ten Fiscal Years (Expressed in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>					
Premiums	\$ 72,986	\$ 80,248	\$ 82,824	\$ 89,030	\$ 109,268
Less Excess Coverage/Reinsurance Premiums	(6,394)	(6,151)	(4,145)	(3,912)	(3,801)
Net Operating Revenues	<u>66,592</u>	<u>74,097</u>	<u>78,679</u>	<u>85,118</u>	<u>105,467</u>
<b>Operating Expenses</b>					
Claims and Claims Adjustment Expense	42,982	35,136	37,076	56,675	86,122
General and Administrative	4,247	4,305	4,180	4,294	10,536
Depreciation Expense	--	--	--	--	--
Total Operating Expenses	<u>47,229</u>	<u>39,441</u>	<u>41,256</u>	<u>60,969</u>	<u>96,658</u>
Operating Income (loss)	19,363	34,656	37,423	24,149	8,809
<b>Nonoperating Revenues (Expenses)</b>					
Interest Income	10,512	18,022	6,866	6,306	1,011
Financing Income	30	25	28	40	98
On behalf contributions	30	--	--	--	--
Appropriations from State of West Virginia	--	--	--	2,000	1,942
Distribution to Physicians' Mutual	--	--	--	(4,582)	--
Total Nonoperating Revenue	<u>10,572</u>	<u>18,047</u>	<u>6,894</u>	<u>3,764</u>	<u>3,051</u>
Change in Net Assets (Deficiency)	<u>29,935</u>	<u>52,703</u>	<u>44,317</u>	<u>27,913</u>	<u>11,860</u>
<b><u>Net Assets (Deficiency) at Year-End</u></b>					
Restricted	33,634	31,117	26,277	20,530	21,939
Unrestricted	93,996	66,430	18,567	(20,003)	(49,325)
Total Net Assets (Deficiency)	<u>\$ 127,630</u>	<u>\$ 97,547</u>	<u>\$ 44,844</u>	<u>\$ 527</u>	<u>\$ (27,386)</u>

Source: Compiled from BRIM's internal accounting records

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$ 76,488	\$ 48,693	\$ 45,606	\$ 42,404	\$ 50,888
(3,126)	(2,011)	(1,629)	(1,553)	(1,557)
<u>73,362</u>	<u>46,682</u>	<u>43,977</u>	<u>40,851</u>	<u>49,331</u>
77,231	68,730	49,640	63,130	50,125
5,360	2,976	2,911	5,119	2,868
--	--	--	8	9
<u>82,591</u>	<u>71,706</u>	<u>52,551</u>	<u>68,257</u>	<u>53,002</u>
(9,229)	(25,024)	(8,574)	(27,406)	(3,671)
4,962	5,367	8,222	6,033	5,524
45	44	--	--	--
--	--	--	--	--
2,910	1,066	--	--	--
--	--	--	--	--
<u>7,917</u>	<u>6,477</u>	<u>8,222</u>	<u>6,033</u>	<u>5,524</u>
<u>(1,312)</u>	<u>(18,547)</u>	<u>(352)</u>	<u>(21,373)</u>	<u>1,853</u>
16,829	14,496	13,328	12,395	12,635
(56,075)	(52,430)	(32,715)	(31,430)	(10,297)
<u>\$ (39,246)</u>	<u>\$ (37,934)</u>	<u>\$ (19,387)</u>	<u>\$ (19,035)</u>	<u>\$ 2,338</u>

## SCHEDULE 2



Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601
1999	\$ 26,377	\$ 23,071	\$ 1,440	-
2000	\$ 20,373	\$ 20,597	\$ 1,434	-
2001	\$ 23,241	\$ 20,951	\$ 1,414	-
2002	\$ 22,840	\$ 21,922	\$ 1,505	\$ 2,426
2003	\$ 26,915	\$ 27,198	\$ 1,528	\$ 20,847
2004	\$ 36,203	\$ 35,793	\$ 1,551	\$ 35,721
2005	\$ 46,465	\$ 40,952	\$ 1,595	\$ 18
2006	\$ 40,252	\$ 40,920	\$ 1,652	-
2007	\$ 39,091	\$ 39,481	\$ 1,676	-
2008	\$ 36,259	\$ 34,875	\$ 1,852	-

The chart above shows premiums by line of business for the past ten fiscal years, expressed in thousands of dollars. This chart illustrates the recent reduction of premiums for State Agencies and Senate Bill 3 customers after a significant period of growth.

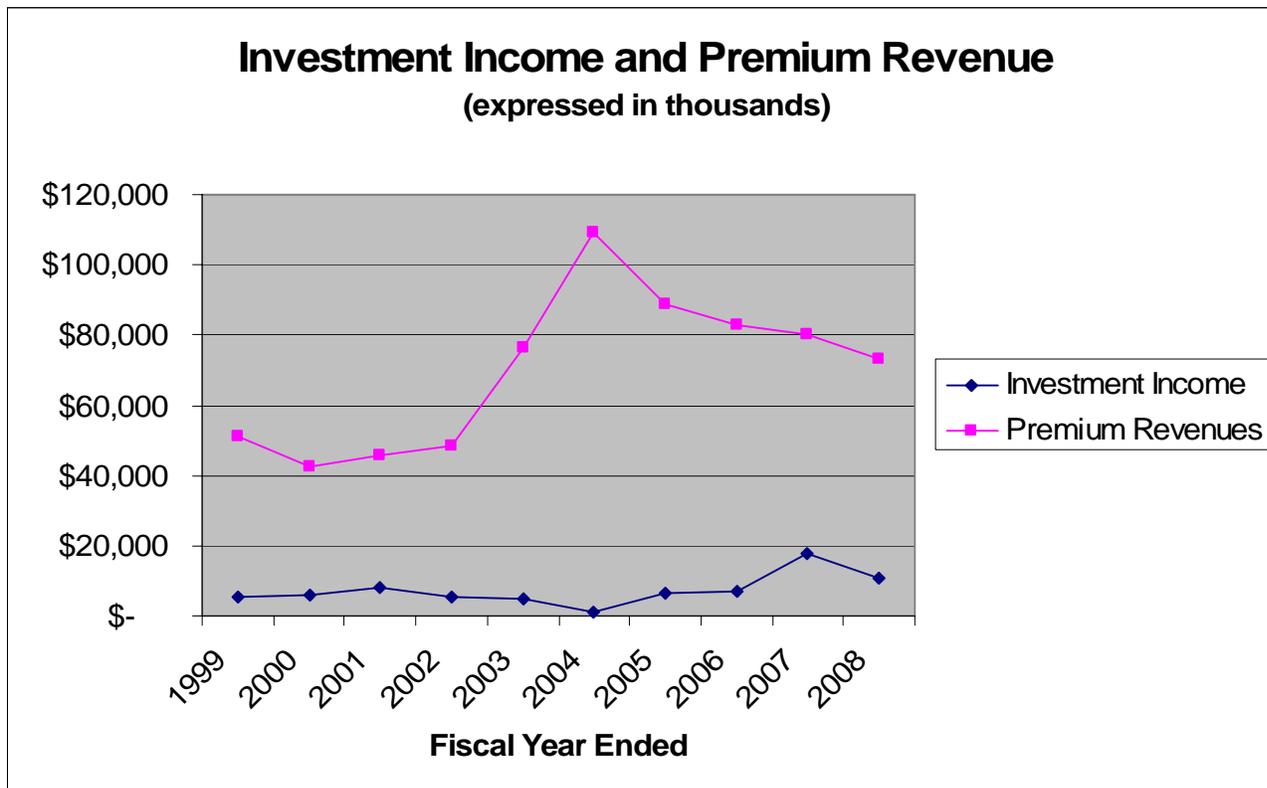
Source: BRIM's internal financial statements.

### SCHEDULE 3

<u>Top 10 State Agency Premiums for Fiscal Year 2008</u>		<u>Top 10 State Agency Premiums for Fiscal Year 1999</u>	
1 West Virginia University	\$ 6,740,285	Division of Highways	\$ 6,037,655
2 Division of Public Safety	5,714,983	West Virginia University	5,550,728
3 Department of Health & Human Resources	4,868,299	Marshall University	1,298,437
4 Division of Highways	4,834,066	Public Health Division	1,175,000
5 Marshall University	2,590,851	Public Safety Division	906,763
6 Corrections Division	923,862	Department of Health & Human Resources	870,265
7 WV State Parks	548,198	Department of Natural Resources	731,595
8 Regional Jail and Correctional Facility Authority	514,093	Corrections Division	438,131
9 Department of Natural Resources	505,324	WV Parkways and Economic Development Authority	387,051
10 Division of Environmental Protection	497,637	Human Services Department	257,375
Total Top Ten	<u>\$ 27,737,598</u>	Total Top Ten	<u>\$ 17,653,000</u>
Total State Premium Billing for 2008	\$ 35,388,637	Total State Premium Billing for 1999	\$ 21,588,194
% of top 10 in relation to all state agency billings	78.38%	% of top 10 in relation to all state agency billings	81.77%
<u>Top 20 SB 3 Premiums for Fiscal Year 2008</u>		<u>Top 20 SB 3 Premiums for Fiscal Year 1999</u>	
1 Kanawha County Board of Education	\$ 1,854,561	Kanawha County Board of Education	\$ 1,211,755
2 West Virginia University Medical Corporation	747,831	Harrison County Board of Education	591,997
3 Raleigh County Board of Education	690,184	Wood County Board of Education	483,120
4 Berkeley County Board of Education	682,670	Cabell County Board of Education	422,347
5 Berkeley County Commission	648,160	Mercer County Board of Education	420,530
6 Wheeling Park Commission	630,136	Raleigh County Board of Education	400,340
7 City of Nitro	593,905	Monongalia County Board of Education	397,109
8 City of St. Albans	578,196	Berkeley County Board of Education	385,542
9 Mercer County Board of Education	547,632	Wyoming County Commission	352,277
10 Harrison County Board of Education	529,309	Wayne County Board of Education	324,835
11 Wayne County Board of Education	514,626	Fayette County Board of Education	298,904
12 Putnam County Board of Education	510,732	Putnam County Board of Education	289,410
13 Wood County Board of Education	491,811	Marion County Board of Education	279,548
14 Cabell County Board of Education	454,052	Logan County Commission	266,588
15 Monongalia County Board of Education	439,006	Ohio County Board of Education	263,122
16 Marion County Board of Education	416,828	Logan County Board of Education	230,043
17 Fayette County Board of Education	395,796	Mineral County Board of Education	228,144
18 Monongalia County Commission	362,045	Boone County Board of Education	225,272
19 Ohio County Commission	355,486	Greenbrier County Board of Education	224,968
20 City of Charleston Housing Authority	355,239	McDowell County Board of Education	217,871
Total Top Twenty	<u>\$ 11,798,205</u>	Total Top Twenty	<u>\$ 7,513,722</u>
Total SB 3 Premium Billing for 2008	\$ 39,180,816	Total SB 3 Premium Billing for 1999	\$ 23,070,990
% of top 20 in relation to total SB 3 billings	30.11%	% of top 20 in relation to total SB 3 billings	32.57%

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

## SCHEDULE 4



Fiscal Year	Investment Income	Premium Revenue
1999	\$ 5,524	\$ 50,888
2000	\$ 6,033	\$ 42,404
2001	\$ 8,222	\$ 45,606
2002	\$ 5,367	\$ 48,693
2003	\$ 4,962	\$ 76,488
2004	\$ 1,011	\$ 109,268
2005	\$ 6,306	\$ 89,030
2006	\$ 6,866	\$ 82,824
2007	\$ 18,022	\$ 80,248
2008	\$ 10,512	\$ 72,986

**This chart illustrates the increasing investment income BRIM has received in the four most recent years as a result of its new investment strategy even with a decrease in overall premium revenues and is expressed in thousands of dollars.**

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

## SCHEDULE 5

### Principal Employers Current Year and Nine Years Ago

As of March 31, 2008		As of December 31, 1999	
Major West Virginia Employers	Number of Employees	Major West Virginia Employers	Number of Employees
Local Government	70,000-74,999	Local Government	70,000-74,999
State of West Virginia	35,000-39,999	State of West Virginia	35,000-39,999
Federal Government	20,000-24,999	Federal Government	20,000-24,999
Wal-Mart Associates, Inc.	10,000-14,000	Wal-Mart Associates, Inc.	6,000-7,999
West Virginia United Health System	7,000-9,999	Charleston Area Medical Center	5,000-5,999
Charleston Area Medical Center	5,000-6,999	Kroger	4,000-4,999
Kroger	3,000-4,999	Weirton Steel Corporation	4,000-4,999
CSX/CSX Hotels Inc. (The Greenbrier and railroad)	1,000-2,999	Columbia/HCA	3,000-3,999
American Electric Power	1,000-2,999	E I DuPont De Numours	3,000-3,999
Eldercare Resources Corporation	1,000-2,999	CSX Corporation	3,000-3,999
Lowe's Home Centers, Inc.	1,000-2,999	Bell Atlantic	2,000-2,999
St. Mary's Hospital	1,000-2,999	Union Carbide Corporation	2,000-2,999
Consolidation Coal Company	1,000-2,999	West Virginia University Hospitals	2,000-2,999

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

## SCHEDULE 6

### Demographic and Economic Indicators Calendar Years 1998-2007

	2007	2006	2005	2004
<b>Population</b>				
West Virginia	1,812,035	1,818,470	1,814,083	1,812,548
Change	-0.35%	0.24%	0.08%	0.12%
National	303,146,284	300,304,181	298,024,822	293,656,842
Change	0.95%	0.76%	1.49%	0.97%
<b>Total Personal Income</b>				
West Virginia (in thousands)	53,522	51,016	47,890	45,686
Change	4.91%	6.53%	4.82%	4.21%
	11,645,882	10,968,393	10,284,356	9,711,363
Change	6.18%	6.65%	5.90%	6.13%
<b>Per Capita Personal Income*</b>				
West Virginia	29,537	28,054	26,399	25,205
Change	5.29%	6.27%	4.74%	4.08%
National	38,417	36,524	34,508	33,070
Change	5.18%	5.84%	4.35%	5.11%
<b>Median Age - West Virginia</b>				
	40.4	40.7	40.7	40.2
<b>Educational Attainment</b>				
9th Grade or Less	7.0%	7.1%	10.0%	10.0%
Some High School, No Diploma	11.8%	11.9%	14.8%	14.8%
High School Diploma	41.0%	42.7%	39.4%	39.4%
Some College, No Degree	16.7%	16.1%	16.6%	16.6%
Associate, Bachelor's or Graduate Degree	23.4%	22.2%	19.2%	19.2%
<b>Resident Civilian Labor Force and Employment in West Virginia</b>				
Civilian Labor Force (thousands)	809.0	805.0	794.0	786.0
Employed (thousands)	772.0	768.0	755.0	744.0
Unemployed (thousands)	37.0	38.0	39.0	42.0
Unemployment Rate (thousands)	4.6%	4.7%	5.0%	5.3%
<b>Nonfarm Wage and Salary Workers Employed in West Virginia</b>				
<b>Goods Producing Industries</b>				
Mining	27.5	28.1	25.9	23.8
Construction	38.7	39.2	36.8	34.6
Manufacturing-Durable Goods	37.2	38.4	38.8	39.2
Manufacturing-NonDurable Goods	21.8	22.6	23	23.8
<b>Total Goods Producing Industries</b>	<b>125.2</b>	<b>128.3</b>	<b>124.5</b>	<b>121.4</b>
<b>Non-Goods Producing Industries</b>				
Trade	116.2	115.5	113.6	111.9
Service	342.7	367.8	364.9	360.5
State and Local Government	122.6	122.4	121.7	121.4
Federal Government	22.5	22.1	21.9	21.8
<b>Total Non-Goods Producing Industries</b>	<b>604</b>	<b>627.8</b>	<b>622.1</b>	<b>615.6</b>
<b>Total Nonfarm Wage and Salary Employment</b>	<b>729.2</b>	<b>756.1</b>	<b>746.6</b>	<b>737</b>

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

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

2003	2002	2001	2000	1999	1998
1,810,347	1,804,529	1,801,438	1,807,442	1,811,799	1,815,609
0.32%	0.17%	-0.33%	-0.24%	-0.21%	-0.19%
290,850,005	287,984,799	285,107,923	282,193,477	279,731,000	276,553,000
0.99%	1.01%	1.03%	0.88%	1.15%	1.17%
43,841	43,312	41,902	39,438	37,472	36,738
1.22%	3.36%	6.25%	5.25%	2.00%	4.36%
9,150,320	8,872,871	8,716,992	8,398,871	7,779,521	7,418,497
3.13%	1.79%	3.79%	7.96%	4.87%	7.07%
24,217	24,002	23,260	21,820	20,682	20,235
0.90%	3.19%	6.60%	5.50%	2.21%	4.56%
31,461	30,810	30,574	29,763	27,811	26,825
2.11%	0.77%	2.72%	7.02%	3.68%	5.84%
39.9	39.5	39.3	39.0	38.9	38.5
10.0%	10.0%	10.0%	10.0%	16.8%	16.8%
14.8%	14.8%	14.8%	14.8%	17.3%	17.3%
39.4%	39.4%	39.4%	39.4%	36.6%	36.6%
16.6%	16.6%	16.6%	16.6%	13.2%	13.2%
19.2%	19.2%	19.2%	19.2%	16.1%	16.1%
790.0	796.0	801.0	809.0	813.0	807.0
742.0	749.0	759.0	765.0	762.0	755.0
48.0	47.0	42.0	44.0	51.0	52.0
6.0%	5.9%	5.2%	5.5%	6.3%	6.5%
22	23.1	23.5	21.4	22.3	24.6
32.7	33.4	34.9	34	33.8	34.4
39.7	42.2	44.5	46.6	46.7	46.5
24.9	26.5	27.7	29.2	30.2	31.2
<b>119.3</b>	<b>125.2</b>	<b>130.6</b>	<b>131.2</b>	<b>133</b>	<b>136.7</b>
110.4	111.3	113.7	117.4	117	115.4
355.5	353.7	350	344.1	335.1	326.4
120.6	120.9	119.2	120.6	119.2	119
21.9	21.9	21.8	22.5	21.7	21.8
<b>608.4</b>	<b>607.8</b>	<b>604.7</b>	<b>604.6</b>	<b>593</b>	<b>582.6</b>
<b>727.7</b>	<b>733</b>	<b>735.3</b>	<b>735.8</b>	<b>726</b>	<b>719.3</b>

## SCHEDULE 7

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

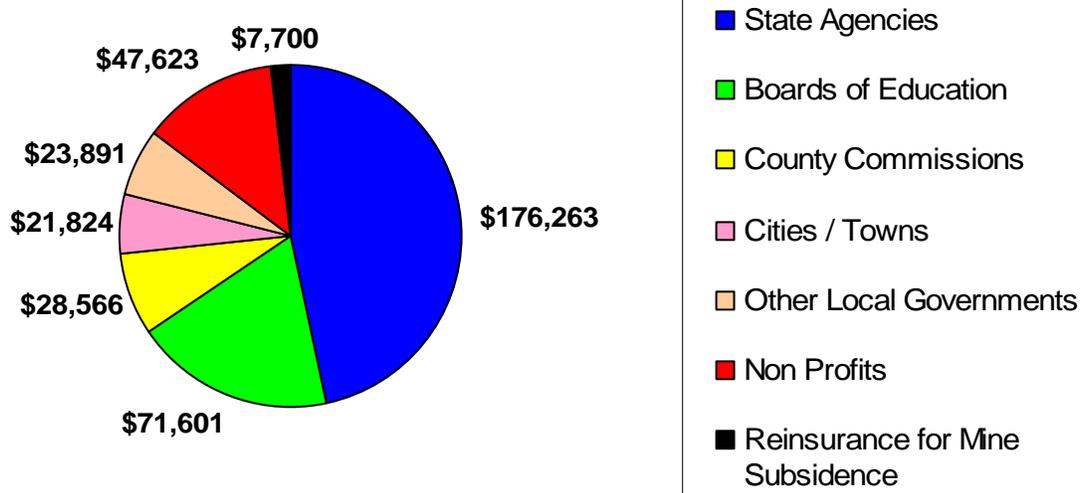
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Administration	2	2	2	3	5	3	2	2	2	3
Finance	3	3	3	3	3	3	3	3	3	3
Claims	5	5	5	6	4	5	4	4	4	4
Underwriting	5	6	6	6	6	5	4	4	4	3
Loss Control	4	6	5	4	4	2	3	2	2	2
Information Systems	2	2	2	2	1	1	2	2	1	1
Medical Professional	--	--	--	--	1	1	--	--	--	--
<b>Total Employees</b>	<b>21</b>	<b>24</b>	<b>23</b>	<b>24</b>	<b>24</b>	<b>20</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>16</b>

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

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

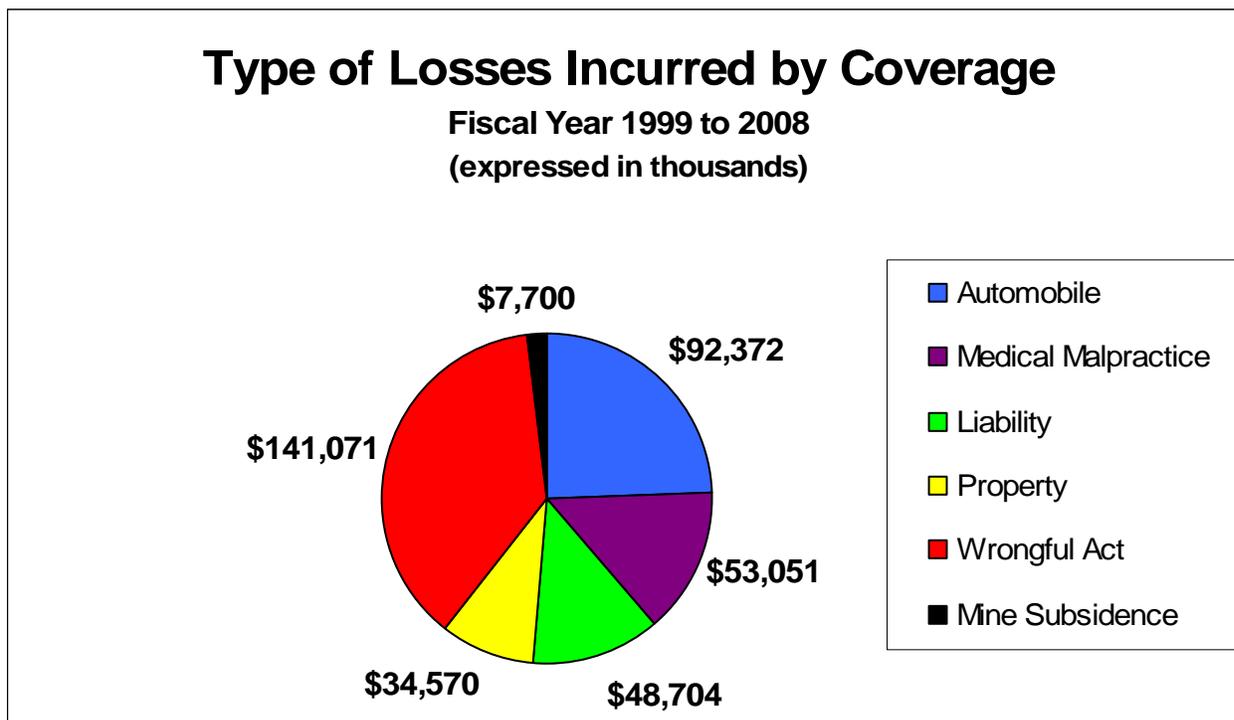
**SCHEDULE 8**

**Claims Dollars Incurred by  
Customer Type  
Fiscal Years 1999 Through 2008  
(expressed in thousands)**



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

## SCHEDULE 9



### Loss Category

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

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

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

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

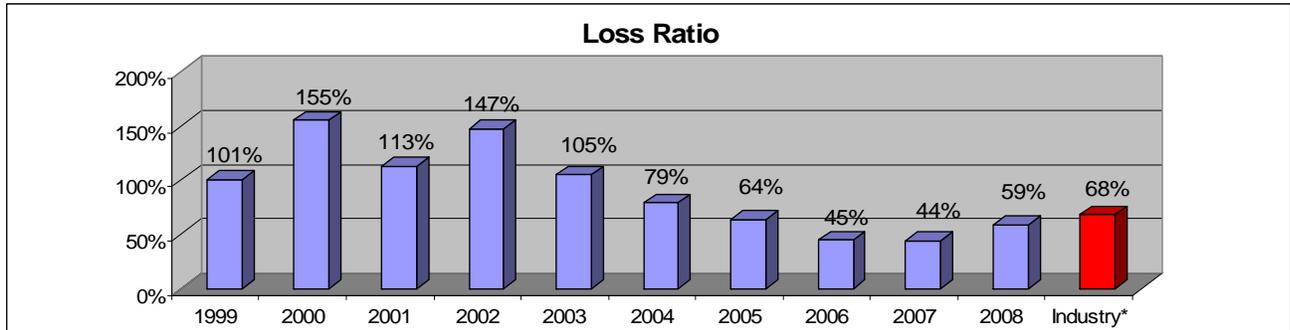
**Wrongful acts** generally fall in the personal injury area and refer to things such as alleged employment discrimination, defamation, and civil rights' violations.

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

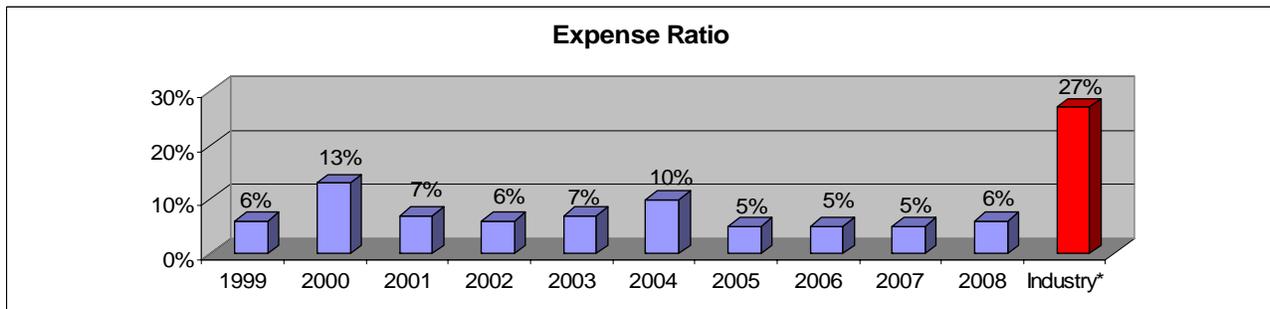
**Source: Information compiled from the West Virginia Board of Risk and Insurance Management's internal data.**

## SCHEDULE 10

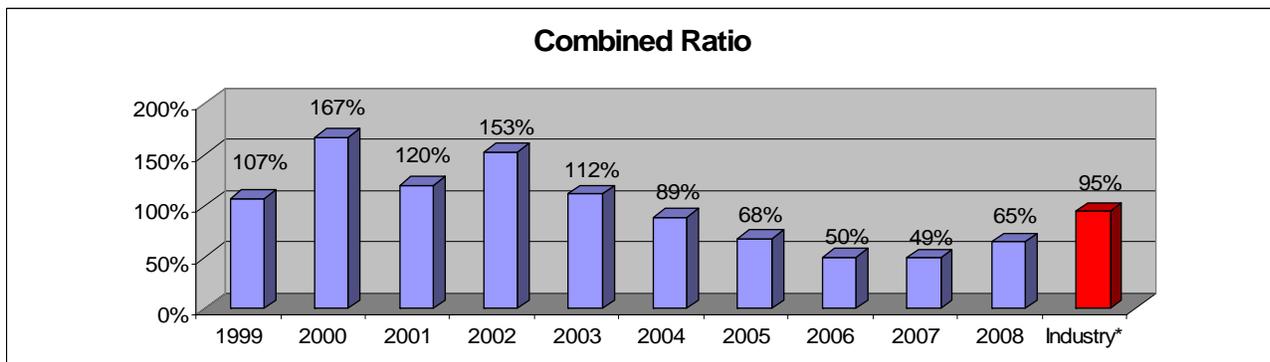
### Industry Averages Compared to BRIM



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



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

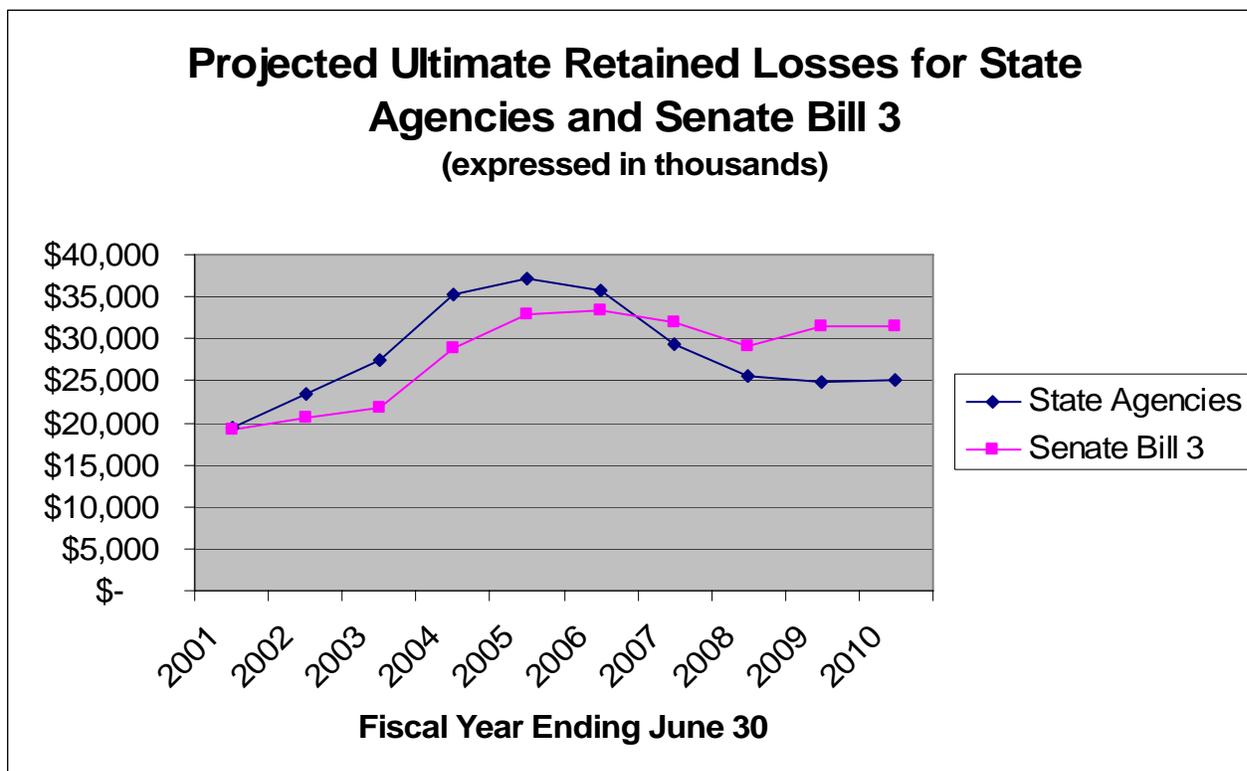


The combined ratio is used to measure underwriting performance. It is derived by adding the loss and expense ratio. A combined ratio below 100% indicates an underwriting profit and one above 100% indicates an underwriting loss.

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

\* **Source: Standard and Poor's Industry Surveys, Insurance: Property/Casualty, July 10, 2008.**

## SCHEDULE 11



Fiscal Year	State Agencies	Senate Bill 3
2001	\$ 19,487	\$ 19,281
2002	\$ 23,337	\$ 20,606
2003	\$ 27,503	\$ 21,784
2004	\$ 35,335	\$ 28,824
2005	\$ 37,065	\$ 32,789
2006	\$ 35,689	\$ 33,369
2007	\$ 29,243	\$ 31,916
2008	\$ 25,631	\$ 29,041
2009	\$ 24,863	\$ 31,508
2010	\$ 25,011	\$ 31,468

The projections indicate a downward trend for both State Agencies and Senate Bill 3 programs for fiscal years 2007 and 2008 before leveling out for fiscal years 2009 and 2010. All projections are listed at their nominal value, expressed in thousands of dollars.

Source: Taken from the independent actuarial reports from AON and (2004-2010) and Ernst and Young (2001-2003).

## SCHEDULE 12

### Listing of Coverages in Effect for Fiscal Year 2008

<u>LIABILITY</u>	<u>LIMIT OF LIABILITY</u>
Automobile Liability Policy No.: RMCA 385-33-06 Company: AIG Insurance	\$ 1,000,000 per occurrence
General Liability Policy No.: RMGL 400-60-70 Company: AIG Insurance	\$ 1,000,000 per occurrence
Aircraft Liability Policy No.: AV 3380 147-06 Company: AIG Insurance	\$ 1,000,000 per occurrence
Excess Liability-Bd. of Education Policy No.: NXG358846I Company: General Star	\$ 5,000,000 per occurrence or claim
 <u>PROPERTY</u>	 <u>LIMIT OF LIABILITY</u>
Blanket Property Policy No.: FS D3586782A 005 Company: Westchester	\$ 25,000,000 primary layer \$ 1,000,000 deductible
Policy No.: NHD 353346 Company: RSUI	\$ 175,000,000 in excess of primary layer of \$ 25,000,000
Policy No.: CICA 2571 Company: Commonwealth	\$ 75,000,000 in excess of 200,000
Policy No.: I20644904-005 Company: Westchester	\$ 10,000,000 flood with \$ 1,000,000 deductible
Boiler and Machinery Policy No.: 76426824 Company: Chubb	\$ 5,000,000 per equipment covered excess of 1,000,000
Public Insurance Official Position Schedule Bond Bond No.: 104511294 Company: Travelers	Variable amounts as set by Statute

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

