



REPORT OF THE ANNUAL MEETING

April 25, 2006

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

530 Walnut Street, Suite 1650
Philadelphia, PA 19106-3698

Board of Directors
2005-2006 Term

| | |
|---|----------------------------------|
| Mr. William Lingenfelter, Chairman | State Farm Insurance Companies |
| Mr. David A. McMillen, Vice Chairman. | Westfield Companies |
| Mr. Gary Auvil | Farmers Mutual Insurance Company |
| Mr. David V. Freeman | Erie Insurance Group |
| Mr. Thomas M. Giffen | Acordia of West Virginia |
| Ms. Michele Lilly | Nationwide Insurance |
| Mr. Jeffrey Williams, Esq. | Allstate Insurance Company |

| | |
|--|---|
| Mr. Daniel M. Taylor, Jr., Esq., General Counsel | Swartz Campbell, LLC |
| Mr. John M. Ogle, General Manager | West Virginia Essential Property Insurance Association |

AGENDA
ANNUAL MEETING
OF THE
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
APRIL 25, 2006
8:30 A. M.
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:30 A.M. - William Lingenfelter, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 22, 2005
3. Ratification of Board Action
4. Report of Chairman
5. Report of General Manager
6. Treasurer's Report
7. Appointment of Board of Directors 2006 - 2007
(Appointment by Insurance Commissioner)
8. New Business
9. Adjournment

Minutes of the Annual Meeting
of the Board of Directors
of the West Virginia Essential Property Insurance Association
April 25, 2006
8:30 a.m.
Embassy Suites Hotel
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 25, 2006 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 8:30 a.m. with Chairman William Lingenfelter presiding and Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 22, 2005 Annual Meeting were approved as distributed to member companies.

A motion to ratify the Board of Directors 2005-2006 term was duly made, seconded and carried.

Upon motion duly made, seconded and carried, the reading of the Chairman's Report, the General Manager's Report and the Treasurer's Report were waived as all three reports were included in the agenda packet and will be incorporated into the Annual Report made available to member companies.

Upon motion duly made, seconded and carried, the reports were accepted as presented.

By Notice of the West Virginia Insurance Commissioner, the Honorable Jane L. Cliné, the following individuals were appointed to the Board of Directors of the West Virginia Essential Property Insurance Association for the 2006 - 2007 term.

Mr. Gary R. Auvil
Farmers Mutual Insurance Company

Mr. David V. Freeman
Erie Insurance Group

Mr. Thomas M. Giffen
Acordia

Mr. William Lingenfelter
State Farm Insurance Companies

Ms. Michele Lilly
Nationwide Insurance

Mr. David A. McMillen
Westfield Companies

Mr. Jeffrey Williams
Allstate Insurance Company

General Manager Ogle noted the 2005 Year End Financial Audit was included in the packet provided to Board Members . The audit will be made part of the Annual Report distributed to member companies.

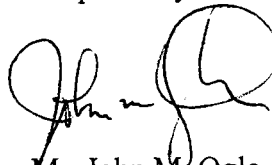
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. William Lingenfelter
Chairman of the Board

Respectfully submitted by



Mr. John M. Ogle, CPCU
General Manager

Chairman's Report
Chairman William Lingenfelter
West Virginia Essential Property Insurance Association
Annual Meeting of
the Board of Directors
April 25, 2006
Charleston, West Virginia - Embassy Suites Hotel
8:30 a.m.

Good Morning and welcome to the 20th Annual Meeting of the West Virginia Essential Property Insurance Association.

As I thought about this past year, I realized this Association has now been in operation for 20 years. It was 1986 and no matter how involved or not involved, any of us were with the group of people that eventually would become the West Virginia Essential Property Insurance Association, I can safely say no one knew back then what the future might hold for this newly formed association. Some people wondered if this new entity would be large or small? Some wondered would it be expensive to operate and would it eventually lose so much money that it would become part of the problem rather than part of the solution? Twenty years later, I can report that it did not become the feared subsidized market of first resort. Instead, I am pleased to report the Association, for the past 20 years, has remained the small, efficiently operated market of last resort.

Since inception, the Association has issued a total of just 28,033 policies, an average of just about 1,400 policies a year. In the past 20 years, the Association earned \$9.7 million in premium and incurred nearly \$8.3 million in claims. There were years of both deficits and surpluses, but even during the bad years, the losses were manageable. The Association has been, and continues to be, properly managed and operated.

The Association continues to operate with the vital assistance of the Insurance Placement Facility of Pennsylvania. Through this arrangement, wherein expenses and expertise are shared, the West Virginia Essential Property Insurance Association is able to maintain its small, but vital role in the West Virginia insurance industry. Special thanks are extended to General Manager John Ogle and his fine staff for their dedication to the West Virginia Essential Property Insurance Association.

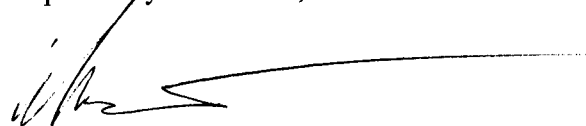
Although the General Manager Report will review the 2005 statistics, I would like to share with you our year-end financial results. In 2005, the Association recorded an Underwriting Surplus of \$12,003. Taking into account Investment Income and Other Income and Expenses, the Net Result of Operations for 2005 was a surplus of \$13,435. New Business Received declined by just over 33.6% and Total Policies Issued dropped by 2.6%. The Association remains small, but as local markets ebb and flow, the West Virginia Essential Property Insurance Association maintains its presence ready to meet the needs of the property owners.

The Association provides the sole financial support to the West Virginia Arson Hotline Program. This year the dedicated and hardworking staff of the Fire Marshall's Office combined with the emergence of this well publicized Hotline produced several arson convictions and resulted in several thousand dollars of reward money. On behalf of the Board, our thanks goes out to the State Fire Marshall's Office investigators, to the Hotline Committee Members and in particular, Committee Chairman Michael Phelps.

Throughout the year, the organization experienced numerous changes to the Board and governing committees. To those individuals who have left us but given so freely of their time and expertise, I would like to express my gratitude for their efforts. It is clear the insurance industry is made up of many talented and professional individuals and this organization is fortunate to have many of those same people serving on our Board and Governing Committees.

In closing, I would like to note the retirement of our long time General Counsel, Mr. Samuel Gerace. Sam was very involved with the Association from its inception and his insights and good humor will be missed. I would also like to recognize and thank the West Virginia State Insurance Department for their active participation and involvement. Lastly, I would like to take this opportunity to thank each of my fellow Board Members for their individual contributions to this organization. Your support has been gratifying and I am confident that the West Virginia Essential Property Association remains in capable hands.

Respectively submitted,

A handwritten signature in black ink, appearing to read 'William Lingenfelter', with a long horizontal flourish extending to the right.

William Lingenfelter
Chairman

General Manager's Report
John M. Ogle
West Virginia Essential Property Insurance Association
Annual Meeting
April 25, 2006
Embassy Suites Hotel
Charleston, West Virginia
8:30 a.m.

Good Morning. I am pleased to be here with you this morning and to have this opportunity to share with you the highlights and results of this past year. In 2005, the West Virginia Essential Property Insurance Association issued 1,643 policies, a slight decrease from the 1,687 policies issued in 2004. The decrease in Policies Issued put the brakes on a growth trend first established in 2002. In 2001 we issued only 956 policies, but for the next three years those numbers grew steadily to its 2004 peak of 1,687.

In 2005, while New Applications Received fell by 33.6% , Renewal Policies Issued increased 17.3% to 1,192 policies. The increase in renewal business increased Premiums Written by 3.2% to \$894,365 and Premiums Earned by 10.3% to \$892,722. The Average Policy premium in 2005 rose almost 6% to \$544 per policy.

On the claims side, in 2005, the Association recorded a 45.2% decrease in Losses Reported from 42 to 23. The Association posted a Total Loss Incurred of \$513,396 and the Average Paid Loss increased 91.5% to \$30,170. The Pure Loss Ratio declined somewhat to 57.51%. The West Virginia Essential Property Insurance Association recorded no claim litigation activity during the year and unlike our very early years of operation, the Association currently has no outstanding claim files in litigation.

All in all, the Association recorded a 2005 Underwriting Surplus of \$12,003 and a Net Result of Operations surplus of \$13,435.

2005 is best categorized as a year of uncertainty. Like all insurance companies, the West Virginia Essential Property Insurance Association was uncertain about the extension of the Federal Terrorism legislation and the uncertainties brought upon by the federal legislation known as Sarbanes-Oxley. More specific to the West Virginia Essential Property Insurance Association, the ebb in new business and the uncertainties as to future growth as a result of the legislative initiatives passed in early 2005, made planning difficult and budgeting an inexact science.

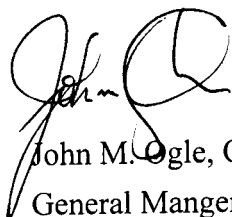
In this our 20th year of operation, the Association remains a small player but poised to meet the challenges that lie ahead. As the insurance industry again adjusts itself to the changing conditions of the marketplace, the impact on the West Virginia Essential Property Insurance Association remains unknown. Although the future is cloudy, the West Virginia Essential Property Insurance Association remains committed to operating a professional and efficient association in service to the property insurance industry as well as the insurance buying public.

In 2005, our long time General Counsel, Mr. Samuel P. Gerace, retired from the Board. Sam was part of the original group of individuals that gave so freely of their time and expertise to establish the Association and his sound advice and counsel will be missed. The West Virginia Essential Property Insurance Association is fortunate to now have the services of Mr. Daniel Taylor as its new General Counsel. Dan was a behind the scenes participant with the West Virginia Essential Property Insurance Association and I look forward to his many years of future service.

In closing, I would like to thank the West Virginia Insurance Department and in particular, Commissioner Cline, for their input and guidance throughout 2005.

The West Virginia Essential Property Insurance Association is fortunate to have the contribution of many talented Board and Committee Members. I would like to extend my gratitude to each individual for contributing their expertise, advice and most of all, their support. Lastly, I would like to thank the individual employees, management and staff alike, for their dedication and commitment to the association. It is because of their fine efforts that we can look back on a successful year and look forward to the challenges of the future.

Respectively,



John M. Ogle, CPCU
General Manager

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

WEST VIRGINIA FAIR PLAN

Treasurer's Report

December 31, 2005

ASSETS

| | |
|--|-------------------|
| Cash in Bank | 258,021.86 |
| Investments, Short term at cost plus accumulated discount | 501,324.70 |
| Accrued Investment Income | 0.00 |
| Due from Participating Members | 0.00 |
| Premiums Receivable | 14,190.49 |
| Other Receivables | 0.00 |
| Prepaid Premium Tax | 0.00 |
| Equipment | 0.00 |
| Total Assets | <u>773,537.05</u> |

LIABILITIES AND MEMBERS' EQUITY

| | |
|---------------------------------------|---------------------|
| Unearned Premiums | 457,901.00 |
| Unearned Advance Premiums | 19,528.00 |
| Outstanding Losses | 209,500.00 |
| Outstanding Loss Adjustment Expenses | 40,449.00 |
| Accrued Expenses | 12,306.00 |
| Unpaid Post Retirement Benefits | 37,029.00 |
| Unpaid Pension | 41,775.00 |
| Accounts Payable | 3,038.76 |
| Claims Checks Payable | 82,135.32 |
| Unpaid Premium Tax | 12,913.90 |
| Total Liabilities | <u>916,575.98</u> |
| Members' Equity (Deficit) | <u>(143,038.93)</u> |
| Total Liabilities and Members' Equity | <u>773,537.05</u> |

Respectfully Submitted,



RoseMarie McDonald
Accounting Manager



STATE OF WEST VIRGINIA

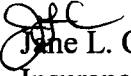
Offices of the Insurance Commissioner

JOE MANCHIN III
Governor

JANE L. CLINE
Insurance Commissioner

MEMORANDUM

TO: Gary R. Auvil – Farmers Mutual Insurance Company
David V. Freeman – Erie Insurance Company
Thomas M. Giffen – Acordia of West Virginia
Michele Lilly – Nationwide Insurance Company
William Lingenfelter – State Farm Fire Insurance Companies
David A. McMillen – Westfield Companies
Jeffrey Williams – Allstate Insurance Company

FROM:  Jane L. Cline
Insurance Commissioner

DATE: March 23, 2006

RE: Board of Directors – 2006-07
West Virginia Essential Property Insurance Association

I hereby appoint the above Board of Directors of the West Virginia Essential Property Insurance Association for 2006-07. I look forward to our efforts in maintaining an effective FAIR Plan.

JLC/csp

cc: John M. Ogle, CPCU
General Manager



**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Statutory Financial Statements,
Independent Auditors' Report and
Supplemental Schedules

For the Years Ended
December 31, 2005 and 2004



SMART.
AND ASSOCIATES, LLP

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Table of Contents For the Years Ended December 31, 2005 and 2004

| | <u>Page(s)</u> |
|---|----------------|
| Independent Auditors' Report | 1 |
| Statutory Financial Statements: | |
| Statutory Statements of Admitted Assets, Liabilities and Members' Deficit | 2 |
| Statutory Statements of Operations and Members' Deficit | 3 |
| Statutory Statements of Cash Flows | 4 |
| Notes to Statutory Financial Statements | 5 – 13 |
| Supplemental Schedules | |
| Schedule 1 – Supplemental Investment Risk Interrogatories | 14 – 15 |
| Schedule 2 – Summary of Investments | 16 |



SMART

AND ASSOCIATES, LLP

Independent Auditors' Report

The Board of Directors
West Virginia Essential Property Insurance Association

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' deficit of West Virginia Essential Property Insurance Association (the "Association") as of December 31, 2005, and the related statutory statements of operations and members' deficit and cash flows for the year then ended. These statutory financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of West Virginia Essential Property Insurance Association for the year ended December 31, 2004, were audited by other auditors whose report dated March 25, 2005, expressed an unqualified opinion on those statements which were prepared on the basis of accounting described in Note 1.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory financial statements, the Association prepared these statutory financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Association's liabilities exceeded its assets by \$143,039 and \$134,354 at December 31, 2005 and 2004, respectively. Such amounts, however, are recoverable from member companies (Note 2).

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' deficit of West Virginia Essential Property Insurance Association as of December 31, 2005, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental investment disclosures, as of and for the year ended December 31, 2005, are presented to comply with the National Association of Insurance Commissioner's Accounting Practices and Procedures manual and is not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Association and for filing with the Insurance Department of the State of West Virginia and other state insurance departments to whose jurisdiction the Association is subject and is not intended to be and should not be used by anyone other than these specified parties.

Smart & Associates LLP

March 15, 2006

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
Statutory Statements of Admitted Assets, Liabilities and Members' Deficit
December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|--------------------------|--------------------------|
| ADMITTED ASSETS | | |
| Cash and cash equivalents | \$ 759,347 | \$ 950,440 |
| Premiums receivable | <u>14,190</u> | <u>12,979</u> |
| Total admitted assets | <u><u>\$ 773,537</u></u> | <u><u>\$ 963,419</u></u> |
| LIABILITIES AND MEMBERS' DEFICIT | | |
| Liabilities: | | |
| Unearned premiums | \$ 457,901 | \$ 456,258 |
| Due to related parties | 82,135 | 180,041 |
| Unpaid losses and loss adjustment expenses | 249,949 | 365,669 |
| Unearned advanced premiums | 19,528 | 15,524 |
| Postretirement benefits payable | 37,029 | 35,104 |
| Pension liability | 41,775 | 22,869 |
| Other liabilities | <u>28,259</u> | <u>22,308</u> |
| Total liabilities | 916,576 | 1,097,773 |
| Members' deficit | <u>(143,039)</u> | <u>(134,354)</u> |
| Total liabilities and members' deficit | <u><u>\$ 773,537</u></u> | <u><u>\$ 963,419</u></u> |

The accompanying notes are an integral part of these statutory financial statements.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Statutory Statements of Operations and Members' Deficit

For the years ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|----------------------------|----------------------------|
| Underwriting: | | |
| Premiums earned | <u>\$ 892,722</u> | <u>\$ 809,479</u> |
| Less: | | |
| Losses incurred | 513,396 | 536,561 |
| Loss adjustment expenses incurred | 65,840 | 130,711 |
| Underwriting and other expenses incurred | <u>310,883</u> | <u>295,351</u> |
| | <u>890,119</u> | <u>962,623</u> |
| Net underwriting gain (loss) | <u>2,603</u> | <u>(153,144)</u> |
| Investment income | <u>2,395</u> | <u>376</u> |
| Other (expense) income: | | |
| Premiums/assessments receivable charged off | (1,485) | (2,470) |
| Other income | <u>522</u> | <u>250</u> |
| Other expense, net | <u>(963)</u> | <u>(2,220)</u> |
| Net income (loss) | 4,035 | (154,988) |
| Members' equity (deficit), beginning of year | (134,354) | 20,635 |
| Change in nonadmitted assets | 2,478 | (2,743) |
| Change in minimum pension liability | <u>(15,198)</u> | <u>2,742</u> |
| Members' deficit, end of year | <u><u>\$ (143,039)</u></u> | <u><u>\$ (134,354)</u></u> |

The accompanying notes are an integral part of these statutory financial statements.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATIONStatutory Statements of Cash Flows
For the years ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Premiums collected, net | \$ 899,650 | \$ 866,511 |
| Loss and adjustment expenses paid (net of salvage and subrogation) | (694,956) | (328,626) |
| Underwriting expenses paid | (387,027) | (286,581) |
| Investment income | 2,395 | 376 |
| Premiums/assessments receivable charged off | (1,485) | (2,470) |
| Other income | <u>522</u> | <u>250</u> |
| Net cash provided by operating activities | <u>(180,901)</u> | <u>249,460</u> |
| Cash flows from financing and other miscellaneous activities: | | |
| Other, net | <u>(10,192)</u> | <u>6,269</u> |
| Net cash (used) provided by financing and other miscellaneous activities | <u>(10,192)</u> | <u>6,269</u> |
| Net (decrease) increase in cash and cash equivalents | (191,093) | 255,729 |
| Cash and cash equivalents, beginning of year | <u>950,440</u> | <u>694,711</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 759,347</u></u> | <u><u>\$ 950,440</u></u> |

The accompanying notes are an integral part of these statutory financial statements.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements

For the Years Ended
December 31, 2005 and 2004

1. Summary of Significant Accounting Policies:

The statutory financial statements of West Virginia Essential Property Insurance Association (the "Association") have been prepared on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") and the Insurance Department of the State of West Virginia.

The more significant accounting policies are as follows:

Premiums:

Premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro rata basis.

Commissions:

Commissions and other costs of acquiring business are charged to operations as incurred.

Nonadmitted Assets:

Certain assets designated as "nonadmitted" are not reflected in the statutory statements of admitted assets, liabilities, and members' equity (deficit). Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' equity (deficit).

Unpaid Losses and Loss Adjustment Expenses:

Unpaid losses and loss adjustment expenses are estimated based on losses reported and the Association's past experience for losses incurred but not yet reported. Management believes that such provisions are adequate to cover the ultimate liability. However, such estimates could differ from the amounts ultimately paid when claims are settled. Subsequent changes in estimates are reflected in earnings currently.

Use of Estimates:

The preparation of statutory financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and other highly liquid temporary investments. The carrying value of cash equivalents approximates fair value. Interest and dividend income from cash and cash equivalents is included in investment income on the statutory statements of operations.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended
December 31, 2005 and 2004

1. Summary of Significant Accounting Policies, continued:

Variances from Generally Accepted Accounting Principles:

Certain of the prescribed or permitted insurance accounting practices followed by the Association differ from accounting principles generally accepted in the United States of America. The principal differences are as follows:

- Commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.
- Certain assets designated as "nonadmitted" would be reflected in the statutory statement of admitted assets, liabilities, and members' deficit.
- Calculation of the pension obligation excludes non-vested employees.

The effects on the statutory financial statements of these differences have not been determined.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. General:

The Association was created by an act of the Legislature of the State of West Virginia to make available basic property insurance against fire and other perils for residential and business properties located in the state. All insurers doing any insurance business in West Virginia of the kinds covered by the Association are required to be a member. Each member participates in the profits and losses of the Association in the proportion that the net direct premiums of the member insurer for the second previous year bear to the net direct premiums written by all members for the second preceding calendar year and is subject to future cash assessments, if required. Members' deficit of \$143,039 and \$134,354 at December 31, 2005 and 2004, respectively will ultimately be assessed to the participating members as required.

The Association shares office space and the services of certain employees with the Insurance Placement Facility of Pennsylvania and the Insurance Placement Facility of Delaware and pays a portion of such joint expenses based on estimates of actual usage.

3. Federal Income Taxes:

The Association files as a partnership for federal income tax purposes. Consequently, the Association provides each member company with an annual statement of its relative share of the Association's annual results of operations for inclusion in each participating member's tax return.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended
December 31, 2005 and 2004

4. Employee Benefits:

The Association, in conjunction with the Insurance Placement Facility of Pennsylvania and the Insurance Placement Facility of Delaware and other unaffiliated organizations, is a participant in the Benefits Connection Group Plan, which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the Internal Revenue Code and is exempt from federal income taxes. The pension plan is funded through the trustee by contributions to group annuity contracts with two insurance companies.

The Facility uses a December 31 measurement date for its pension plan.

The following table sets forth the year-end status of the plan as it relates to the Association:

| | 2005 | 2004 |
|--|--------------------|--------------------|
| Change in projected benefit obligation: | | |
| Benefit obligation at January 1 | \$ 200,277 | \$ 141,526 |
| Service cost | 6,104 | 5,025 |
| Interest cost | 14,011 | 10,954 |
| Actuarial loss | 56,391 | 48,236 |
| Benefits paid | (6,818) | (5,464) |
| Benefit obligation at December 31 | <u>269,965</u> | <u>200,277</u> |
| Change in plan assets: | | |
| Fair value of plan assets at January 1 | 148,561 | 97,435 |
| Actual return on plan assets | 13,486 | 23,562 |
| Employer contributions | 34,597 | 33,028 |
| Benefits paid | (6,818) | (5,464) |
| Fair value of plan assets at December 31 | <u>189,826</u> | <u>148,561</u> |
| Funded status | (80,139) | (51,716) |
| Unrecognized net actuarial loss | <u>64,546</u> | <u>36,862</u> |
| | <u>\$ (15,593)</u> | <u>\$ (14,854)</u> |

Weighted average assumptions used to determine benefit obligations at December 31:

| | 2005 | 2004 |
|-------------------------------|-------|-------|
| Discount rate | 5.50% | 5.75% |
| Rate of compensation increase | 3.25% | 3.25% |

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended
December 31, 2005 and 2004

4. Employee Benefits, continued:

The net periodic pension cost for the plan includes the following components:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------|-----------------|
| Components of net periodic pension cost: | | |
| Service cost | \$ 6,104 | \$ 5,025 |
| Interest cost | 14,011 | 10,955 |
| Expected return on plan assets | (14,818) | (10,598) |
| Amount of loss recognized | <u>3,539</u> | <u>2,299</u> |
| Net periodic pension cost | <u>\$ 8,836</u> | <u>\$ 7,681</u> |

Weighted average assumptions used to determine the net periodic pension cost:

| | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|
| Discount rate | 5.75% | 6.25% |
| Expected long-term rate of return | 8.50% | 8.50% |
| Weighted average rate of compensation increase | 3.25% | 3.50% |

The accumulated benefit obligation for the plan was \$231,600 and \$171,430 at December 31, 2005 and 2004, respectively.

Accrued benefit cost recognized in the accompanying statutory statements of admitted assets, liabilities, and members' deficit was \$41,774 and \$22,869 at December 31, 2005 and 2004, respectively.

An additional minimum pension liability ("AML") is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2005 and 2004, the Association had an AML of \$26,181 and \$8,015, respectively.

The Association changed the manner in which it accounts for the AML in 2004 to conform to the requirements of SSAP No. 89, *Accounting for Pensions, A Replacement of SSAP No. 8*. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. Previously, changes to the AML were recorded through the statutory statement of operations. The increase (decrease) in the AML during 2005 and 2004, respectively was \$18,166 and (\$2,742) was credited directly to members' deficit. The accounting change did not have any effect on members' deficit at December 31, 2005 or 2004.

The benefit obligation excludes liabilities for nonvested employees, which were \$208 and \$17 at December 31, 2005 and 2004, respectively.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended
December 31, 2005 and 2004

4. Employee Benefits, continued:

The expected long-term rate of return on assets assumption is 8.50%. As defined in Financial Accounting Standards ("FAS 87"), this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The plan's weighted average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

| | <u>2005</u> | <u>2004</u> |
|-------------------|-------------|-------------|
| Asset category: | | |
| Equity securities | 59.60% | 59.00% |
| Debt securities | 39.70% | 38.00% |
| Cash | 0.70% | 3.00% |

The primary investment objective for the pension plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the plan administrator's board of directors. The pension asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the pension portfolio while maintaining acceptable levels of risk. The target asset allocation is 60% equity securities and 40% debt securities.

The Association expects to contribute \$15,497 to the plan in 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | |
|-----------|----------|
| 2006 | \$ 8,076 |
| 2007 | 8,555 |
| 2008 | 9,722 |
| 2009 | 10,580 |
| 2010 | 11,275 |
| 2011-2015 | 82,254 |

The Association provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employees' basic annual salary. For employees who are under age 65 at retirement, the Association continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Association pays the full cost of life insurance with coverage limited to \$5,000.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended
December 31, 2005 and 2004

4. Employee Benefits, continued:

Retired employees of the Association are provided Medicare HMO coverage. The HMO provides coverage for certain hospital, surgical, and medical costs not covered by Medicare. To be eligible for the HMO, a retiree must be 65 years of age or older and have at least five years of service with the Association.

The Association uses a December 31 measurement date for its postretirement benefit plan.

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|---|-------------------------|-------------------------|
| Accumulated postretirement benefit obligation: | | |
| Postretirement benefit obligation for retirees and fully vested plan participants | \$ 14,165 | \$ 50,188 |
| Plan assets at fair value | <u>-</u> | <u>-</u> |
| Accumulated postretirement benefit obligation in excess of plan assets | 14,165 | 50,188 |
| Unrecognized loss/(gain) | 16,886 | (19,504) |
| Unrecognized prior service | <u>5,978</u> | <u>4,420</u> |
| Accrued postretirement benefit cost | <u><u>\$ 37,029</u></u> | <u><u>\$ 35,104</u></u> |

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|--|-------------------------|-------------------------|
| Accrued postretirement benefit cost at January 1 | \$ 35,104 | \$ 25,359 |
| Benefit expense for year | 4,267 | 11,724 |
| Benefits paid | <u>(2,342)</u> | <u>(1,979)</u> |
| Accrued postretirement benefit cost at December 31 | <u><u>\$ 37,029</u></u> | <u><u>\$ 35,104</u></u> |

Weighted average assumptions used to determine benefit obligations at December 31:

| | <u>2005</u> | <u>2004</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 5.50% | 5.75% |
| Rate of compensation increase | 3.25% | 3.50% |

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

4. Employee Benefits, continued:

Net periodic postretirement benefit cost for 2005 and 2004 includes the following components:

| | 2005 | 2004 |
|--|-----------------|------------------|
| Service cost | \$ - | \$ 2,279 |
| Interest cost | 6,510 | 9,389 |
| Amortization of (gain) loss | (1,273) | 774 |
| Amortization of prior service cost | (970) | (718) |
| Net periodic postretirement benefit cost | <u>\$ 4,267</u> | <u>\$ 11,724</u> |

Weighted average assumptions used to determine the net periodic postretirement cost:

| | 2005 | 2004 |
|--|-------|-------|
| Discount rate | 5.75% | 6.25% |
| Weighted average rate of compensation increase | 3.50% | 3.50% |

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 11% and 12% were assumed for 2005 and 2004, respectively. These rate increases were assumed to decrease through 2011 and later when they level off at 5%. The healthcare cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed healthcare cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2005 by \$1,160 and net periodic postretirement benefit cost for the year ended December 31, 2005 by \$62.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | |
|-----------|--------|
| 2006 | \$ 737 |
| 2007 | 830 |
| 2008 | 930 |
| 2009 | 993 |
| 2010 | 993 |
| 2011-2015 | 6,474 |

The employees of the Association are eligible to participate in the Benefits Connection Group 401(k) Savings Plan, a defined contribution plan. The plan is administered by the Administration Committee for Benefits Connection Group Savings Plan. Participation in the plan is voluntary. Employees are vested in employer contributions upon participation. Employees may contribute 1% to 16% of their annual compensation on a before-tax basis and/or 1% to 16% of their annual compensation on an after-tax basis for a total of 16%. The Association matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Association amounted to \$3,258 and \$2,780 in 2005 and 2004, respectively.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

5. Liability for Unpaid Losses and Loss Adjustment Expenses:

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

| | <u>2005</u> | <u>2004</u> |
|----------------------|-------------------|-------------------|
| Balance, January 1 | \$ 365,669 | \$ 51,018 |
| Incurred related to: | | |
| Current year | 639,371 | 668,845 |
| Prior years | <u>(60,135)</u> | <u>(1,573)</u> |
| Total incurred | <u>579,236</u> | <u>667,272</u> |
| Paid related to: | | |
| Current year | 389,422 | 303,176 |
| Prior years | <u>305,534</u> | <u>49,445</u> |
| Total paid | <u>694,956</u> | <u>352,621</u> |
| Balance, December 31 | <u>\$ 249,949</u> | <u>\$ 365,669</u> |

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses decreased by \$60,135 and \$1,573 in 2005 and 2004, respectively.

6. Lease Commitments:

The Association conducts its operations in leased premises under a lease that will expire April 30, 2008. At December 31, 2005, minimum rental commitments under this noncancelable lease are as follows:

| | |
|---------------------------------|------------------|
| <u>Year ending December 31:</u> | |
| 2006 | \$ 6,977 |
| 2007 | 6,977 |
| 2008 | <u>2,326</u> |
| Total payments | <u>\$ 16,280</u> |

Total rental expense was \$9,658 and \$7,677 in 2005 and 2004, respectively.

The Association is charged a portion of the total rentals paid by Insurance Placement Facility of Pennsylvania for common facilities, based upon underwriting activity of the Association during the year. Rental commitment allocations are based upon continuation of the current level of activity.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

7. Related Party Transactions:

The Insurance Placement Facility of Pennsylvania issues all checks, including those payable by the Association, and is then reimbursed by the Association (note 2). Throughout 2005 and 2004, \$877,364 and \$527,402, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Association. The related payable to the Insurance Placement Facility of Pennsylvania is \$82,135 and \$180,041 at December 31, 2005 and 2004, respectively.

8. Annual Statement Reconciliation:

The following is a reconciliation between the accompanying statutory financial statements and the Annual Statement for the years ended December 31, 2005 and 2004:

| | 2005 | |
|--|-----------------|---------------------|
| | Net loss | Members' deficit |
| As reported in the Annual Statement | \$ 13,434 | \$ (143,039) |
| 2005 underwriting and other expense adjustment | (9,399) | - |
| As reported herein | <u>\$ 4,035</u> | <u>\$ (143,039)</u> |

| | 2004 | |
|--|---------------------|---------------------|
| | Net loss | Members' deficit |
| As reported in the Annual Statement | \$ (159,103) | \$ (143,755) |
| 2003 underwriting and other expense adjustment | (2,544) | - |
| 2004 underwriting and other expense adjustment | 6,659 | 9,401 |
| As reported herein | <u>\$ (154,988)</u> | <u>\$ (134,354)</u> |

The underwriting and other expense adjustments relate to the additional minimum pension liability adjustments discussed in note 4.

SUPPLEMENTAL SCHEDULES

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
Supplemental Investment Risk Interrogatories
December 31, 2005

Total admitted assets at December 31, 2005

\$ 773,537

1. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt; (ii) property occupied by the Company; and (iii) policy loans.

| Investment category | Amount | Percentage of total admitted assets |
|---------------------|--------|--|
| None | \$ - | 0.00% |

2. State the amount and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

| Bonds | Preferred stocks |
|-------|------------------|
| None | None |
| \$ - | \$ - |

3. The Company holds no foreign investments.
4. The Company holds no Canadian investments.
5. The Company holds no investments with contractual sales restrictions.
6. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

| Investment category | Amount | Percentage of total admitted assets |
|---------------------|--------|--|
| None | \$ - | 0.00% |

7. The Company holds no nonaffiliated, privately placed equities.
8. The Company holds no general partnership interests.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
Supplemental Investment Risk Interrogatories, continued
December 31, 2005

9. The Company holds no mortgage loans.
10. The Company holds no real estate.
11. The Company has no repurchase agreements.
12. The Company does not hold warrants.
13. The Company does not have exposure to collars, swaps, or forwards.
14. The Company does not have exposure for futures contracts.
15. The Company does not have amounts in the Write-Ins for Invested Assets category on the Summary Investment Schedule.

See accompanying independent auditors' report.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Summary of Investments

December 31, 2005

| Investment categories | Gross investment holdings* | | Admitted assets as reported in the annual statement | |
|---------------------------------|-------------------------------|------|---|------|
| Cash and short-term investments | \$ 759,347 | 100% | \$ 759,347 | 100% |
| Total invested assets | <u>\$ 759,347</u> | | <u>\$ 759,347</u> | |

* Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual.

See accompanying independent auditors' report.