



REPORT OF THE ANNUAL MEETING

April 29, 2008

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors
2007-2008 Term

Mr. David A. McMillen, Chairman.	Westfield Companies
Mr. Gary R. Auvil	Farmers Mutual Insurance Company
Mr. David V. Freeman	Erie Insurance Group
Mr. Thomas M. Giffen	Wells Fargo Insurance Services, Inc.
Mr. Glenn Hahn	State Farm Insurance Companies
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 29, 2008
8:30 A. M.
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:30 A.M. - David A. McMillen, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 20, 2007
3. Ratification of Board Action
4. Report of Chairman
5. Report of General Manager
6. Treasurer's Report
7. Appointment of Board of Directors 2008 - 2009
(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 29, 2008
8:30 a.m.
Embassy Suites Hotel
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 29, 2008 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 8:30 a.m. with Vice Chairman Mr. David V. Freeman presiding and Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 20, 2007 Annual Meeting were approved as distributed to member companies.

A motion to ratify the Board of Directors 2007-2008 term was duly made, seconded and carried.

Upon motion duly made, seconded and carried, the readings 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 distributed 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. Cline, the following individuals were appointed to the Board of Directors of the West Virginia Essential Property Insurance Association for the 2008 - 2009 term.

Mr. Gary R. Auvil
Farmers Mutual Insurance Company

Mr. David V. Freeman
Erie Insurance Group

Mr. Thomas M. Giffen
Wells Fargo Insurance Services, Inc.

Mr. Glenn Hahn
State Farm Insurance Companies

Mr. David A. McMillen
Westfield Companies

Ms. Michele Lilly
Nationwide Insurance

Mr. Jeffrey Williams
Allstate Insurance Company

The General Manager noted the 2007 financial audit report provided by the accounting firm of Smart and Associates, LLP as presented and accepted by the Board of Directors will be made part of the Annual Report submitted to Member Companies.

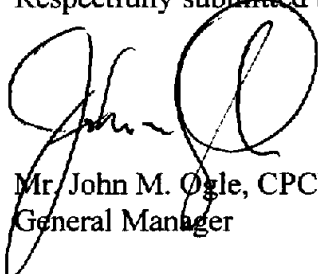
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. David V. Freeman
Vice Chairman of the Board

Respectfully submitted by,



Mr. John M. Ogle, CPCU
General Manager

Report of the Chairman
Mr. David A. McMillen

22nd Annual Meeting
West Virginia Essential Property Insurance Association
April 29, 2008

Good Morning and welcome to the 22nd Annual Meeting of the West Virginia Essential Property Insurance Association. In over two decades of service to the West Virginia marketplace, the Association has issued more than 30,700 policies, earned \$11,339,400 in Premiums and incurred just over \$8,955,600 in losses.

As I reflect back over the many years, I am struck by what a small, but vital role the Association has played in the West Virginia market. When operations commenced in November of 1986, no one had any idea of what to expect. Some openly worried that the Association would grow to become the market of first resort while others expressed their concern that the Association's poor loss ratios would eventually push assessments to the point of forcing the statewide industry to withdraw from the market.

I am here to report that neither gloom and doom scenario occurred. Through the tireless efforts of the staff and Board and with the ongoing support from the Insurance Department, the industry and the legislature, the West Virginia Essential Property Insurance Association has become a model for the small, well run markets of last resort.

In 2007, the Association issued just 1,226 policies and earned only \$759,732 in premium. Losses Incurred were recorded at their lowest level since the Association's inception at \$61,471. All in all, in 2007 the West Virginia Essential Property Insurance Association recorded a net result of operations of \$365,617.

In 1986, when the West Virginia Essential Property Insurance Association wrote its first policy, all business was transacted through the US Mail. Now, some 22 years later the West Virginia FAIR Plan now accepts new applications and their respective premium payments over the internet. Electronic manual pages and rate quotations can be accessed by any interested party with a computer and internet access. Electronic communication has become a routine form to transmit information. As we closed 2007 and look past 2008, we see the FAIR Plan making greater use of the electronic world to lower its costs and increase its communications with its policyholders.

Through the years, the staff has remained committed to providing the people of West Virginia with a reliable and well run market of last resort. This past year was no different and I am pleased to report the West Virginia Essential Property Insurance Association continued to meet

its obligations and responsibilities as required by the relevant West Virginia statutes and regulations.

Since inception the Pennsylvania FAIR Plan has provided the West Virginia Essential Property Insurance Association with management and functional support. This relationship has been a win win for both parties as operational costs as well as expertise is shared by the Plans with no fee being charged by the Insurance Placement Facility of Pennsylvania.

Although we are considerably smaller than the Pennsylvania Plan, the Plan management operates the West Virginia Essential Property Insurance Association with the same high quality and professional services that each policyholder or potential insured has come to expect.

As I complete my first year as Chairman, I would like to thank General Manager John M. Ogle and his management staff for all of their efforts. At the same time, I would like to recognize each of the employees for their continuing efforts to provide service in a timely and efficient manner to the policyholders, agents and brokers as well as the various member companies and regulatory personnel. I would be remiss if I did not also recognize the fine efforts and leadership of the West Virginia Insurance Department. In particular, I would like to thank West Virginia Insurance Commissioner, Jane Cline for her assistance to the operation.

I would also like to thank General Counsel Daniel Taylor for his tireless service to the organization. Dan provided the Board with his review and advice on a variety of issues. His opinions have served the Plan and the Board well. In addition, I would like to thank our committee members and in particular, Claims Committee Chairman Scott Huber, Underwriting Committee Chairman Tom Giffen and Accounting Committee Chairman Tom Sykes for having assisted the Department heads and the Board in overseeing the operations.

Lastly, this past year brought many new faces to our Board of Directors and its Committees. To those individuals who have left our organization, I would like to express my best wishes in their future endeavors and my gratitude for their past contributions. I would like to thank my fellow Board members for their participation and support. The job of Chairman carries its own demands but the job performed by my fellow Board and Committee members has certainly made my job as Chairman, much easier.

Respectfully submitted,



Mr. David A. McMillen
Chairman of the Board

Report of the General Manager
Mr. John M. Ogle

West Virginia Essential Property Insurance Association
Annual Meeting
April 29, 2008
Embassy Suites Hotel
Charleston, West Virginia

Good Morning. I'm pleased to be with you this morning and to have this opportunity to share with you the highlights and results of the past year. In 2007, the West Virginia Essential Property Insurance Association issued 1,226 policies, nearly a 17.2% decrease from the 1,481 policies issued in 2006. The decrease in Policies Issued established a two year depopulation trend after several years of sustained growth. For example, in 2001, we issued only 956 policies but for the next three years those numbers grew steadily to the 2004 peak of 1,687. In 2005 and 2006 the numbers fell slightly and now have continued to fall through 2007.

Last year, New Applications Received fell by 41% while Renewal Policies Issued decreased by 9.8% to 999 policies. The decrease in business impacted Premiums Written, which fell 9.3% to \$720,963 and Premiums Earned, which declined 10.8% to \$759,721. The Average Policy Premium in 2007; however, rose 9.5% to \$588 per policy.

On the Claims side, in 2007 the Association recorded a 66.7% decrease in the number of Losses Reported, from 36 to 12. The Association paid \$163,871 in claims in 2007, a decline of 76.7% from 2006. The Average Paid Loss declined just over 49.6% to \$13,656 per claim. The West Virginia Essential Property Insurance Association had one claim in litigation during 2007 which remained open at year end.

2007, like 2006, was 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 eventual impact. The Association remained uncertain about the impact of state regulation changes and lastly, the Association was uncertain of the impact the catastrophes along the Gulf Coast might have on the West Virginia marketplace in general. More specific to our organization, the decline in new business and the uncertainties of future growth, made planning a difficult and inexact science.

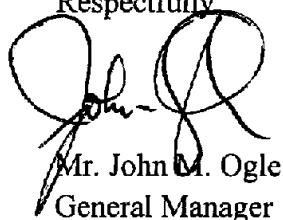
The year 2007 was our 21st year of operation. Throughout the last two decades the Association has remained a small player in the West Virginia marketplace. As the insurance industry again adjusts itself to the changing conditions of the marketplace, the impact on the West Virginia Essential Property Insurance Association remains unknown. Regardless, the Association remains committed to operating a professional, efficient association in service to the property insurance industry as well as to the citizens of West Virginia.

I would like to thank each member of the Board of Directors including Chairman David McMillen. As General Manager, I appreciate your continued interest and support. In these days of conflicting schedules, difficult airplane connections and time spent away from the office and friends, I know of your sacrifices and I appreciate your efforts.

I would be remiss if I did not thank the West Virginia Insurance Department and in particular, Commissioner Cline. Her input and guidance throughout the year has been most appreciated. Lastly, I would like to thank General Counsel Dan Taylor. Dan provided us with well thought out legal advice and counsel, all of which was appreciated.

The West Virginia Essential Property Insurance Association is fortunate to have the contribution of many talented individual employees, management and staff alike. Their dedication and commitment to the Association is commendable and it is because of their fine efforts we can look forward to the challenges of the future.

Respectfully



Mr. John M. Ogle
General Manager

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

WEST VIRGINIA FAIR PLAN

Treasurer's Report

December 31, 2007

ASSETS

Cash in Bank	382,167.32
Investments, Short term at cost plus accumulated discount	231,015.28
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	12,205.00
Other Receivables	0.00
Prepaid Premium Tax	0.00
Total Assets	<u>625,387.60</u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	361,911.00
Unearned Advance Premiums	11,212.00
Outstanding Losses	1,500.00
Outstanding Loss Adjustment Expenses	573.00
Accrued Expenses	12,350.00
Unpaid Post Retirement Benefits	39,009.00
Unpaid Pension	1,785.00
Accounts Payable	2,149.17
Claims Checks Payable	50,255.18
Unpaid Premium Tax	10,552.93
Total Liabilities	<u>491,297.28</u>
Members' Equity (Deficit)	134,090.32
Total Liabilities and Members' Equity	<u>625,387.60</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: John M. Ogle, CPCU, General Manager
From: Jane L. Cline, Insurance Commissioner
Date: 3/21/2008
Re: Board of Directors – 2008/2009
West Virginia Essential Property Insurance Association

I hereby officially appoint the following companies and their representatives to serve as the Board of Directors to the West Virginia Essential Property Insurance Association for 2008/2009. I look forward to our continued efforts in maintaining an effective West Virginia FAIR Plan for the citizens for West Virginia.

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
Glen Hahn – State Farm Fire Insurance Companies
David A. McMillen – Westfield Companies
Jeffrey Williams – Allstate Insurance Company

JLC/rch



**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Statutory Financial Statements,
Independent Auditors' Report and
Supplemental Schedules

For the years ended December 31, 2007 and 2006

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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For the years ended December 31, 2007 and 2006

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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' equity (deficit) of West Virginia Essential Property Insurance Association (the "Association") as of December 31, 2007 and 2006, and the related statutory statements of operations and members' equity (deficit) and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 \$235,379 at December 31, 2006. 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' equity (deficit) of West Virginia Essential Property Insurance Association as of December 31, 2007 and 2006, 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 audits were 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, 2007, 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 and Associates, LLP

April 10, 2008

SMART and Associates, LLP
Certified Public Accountants

80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | www.smartgrp.com

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WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
Statutory Statements of Admitted Assets, Liabilities and Members' Equity (Deficit)
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ADMITTED ASSETS		
Cash and cash equivalents	\$ 613,182	\$ 436,094
Premiums receivable	<u>12,205</u>	<u>13,140</u>
Total admitted assets	<u><u>\$ 625,387</u></u>	<u><u>\$ 449,234</u></u>
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)		
Liabilities:		
Unearned premiums	\$ 361,911	\$ 400,669
Due to related parties	50,255	63,089
Unpaid losses and loss adjustment expenses	2,073	113,632
Unearned advanced premiums	11,212	14,241
Postretirement benefits payable	39,009	40,298
Pension liability	1,785	25,207
Other liabilities	<u>25,052</u>	<u>27,477</u>
Total liabilities	491,297	684,613
Members' equity (deficit)	<u>134,090</u>	<u>(235,379)</u>
Total liabilities and members' equity (deficit)	<u><u>\$ 625,387</u></u>	<u><u>\$ 449,234</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' Equity (Deficit)
For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Underwriting:		
Premiums earned	<u>\$ 759,721</u>	<u>\$ 852,072</u>
Less:		
Losses incurred	61,471	598,451
Loss adjustment expenses incurred	62,958	45,031
Underwriting and other expenses incurred	<u>294,972</u>	<u>339,180</u>
	<u>419,401</u>	<u>982,662</u>
Net underwriting gain (loss)	<u>340,320</u>	<u>(130,590)</u>
Investment income	<u>11,154</u>	<u>18,554</u>
Other income:		
Premiums receivable recovered (charged off)	214	724
Other income (expense)	<u>477</u>	<u>(473)</u>
Other income, net	<u>691</u>	<u>251</u>
Net income (loss)	352,165	(111,785)
Members' deficit, beginning of year	(235,379)	(143,039)
Change in nonadmitted assets	3,065	(2,038)
Change in minimum pension liability	12,429	18,015
Refunds/assessments charged-off	<u>1,810</u>	<u>3,468</u>
Members' equity (deficit), end of year	<u><u>\$ 134,090</u></u>	<u><u>\$ (235,379)</u></u>

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

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**Statutory Statements of Cash Flows****For the years ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Premiums collected, net	\$ 721,814	\$ 788,671
Benefit and loss related payments	(163,871)	(704,051)
Commissions, expenses paid and aggregate write-in for deductions	(365,448)	(414,436)
Investment income	11,154	18,554
Other income	<u>690</u>	<u>254</u>
Net cash provided by (used by) operating activities	<u>204,339</u>	<u>(311,008)</u>
Cash flows from financing and other miscellaneous activities:		
Other cash applied	<u>(27,251)</u>	<u>(12,244)</u>
Net cash used by financing and other miscellaneous activities	<u>(27,251)</u>	<u>(12,244)</u>
Net increase (decrease) in cash and cash equivalents	177,088	(323,252)
Cash and cash equivalents, beginning of year	<u>436,094</u>	<u>759,346</u>
Cash and cash equivalents, end of year	<u>\$ 613,182</u>	<u>\$ 436,094</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, 2007 and 2006

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, 2007 and 2006

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 \$235,379 at December 31, 2006, may 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, 2007 and 2006

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 Prudential Retirement Insurance and Annuity Company Pension 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 Association uses a December 31 measurement date for its pension plan. Assets, liabilities and expenses of the plan are allocated to the Association based on its underwriting activity. The allocation percentage used for the Association was 3.70% in 2007 and 3.50% in 2006.

The following table sets forth the year-end status of the plan:

	<u>2007</u>	<u>2006</u>
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 9,024,042	\$ 8,968,928
Service cost	183,858	197,895
Interest cost	541,984	493,638
Actuarial (gain) loss	(285,803)	(397,430)
Benefits paid	<u>(266,920)</u>	<u>(238,989)</u>
Benefit obligation at December 31	<u>9,197,161</u>	<u>9,024,042</u>
Change in plan assets:		
Fair value of plan assets at January 1	7,050,733	6,306,500
Actual return on plan assets	532,751	473,103
Employer contributions	565,459	510,119
Benefits paid	<u>(266,920)</u>	<u>(238,989)</u>
Fair value of plan assets at December 31	<u>7,882,023</u>	<u>7,050,733</u>
Funded status	(1,315,138)	(1,973,309)
Unrecognized net actuarial loss	<u>1,266,896</u>	<u>1,608,223</u>
Accrued benefit cost	<u>\$ (48,242)</u>	<u>\$ (365,086)</u>

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
Notes to Statutory Financial Statements, continued
For the years ended December 31, 2007 and 2006

4. Employee Benefits, continued:

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.50%	6.00%
Rate of compensation increase	4.00%	3.50%

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

	<u>2007</u>	<u>2006</u>
Components of net periodic pension cost:		
Service cost	\$ 183,858	\$ 197,895
Interest cost	541,984	493,638
Expected return on plan assets	(576,172)	(503,639)
Amount of loss recognized	<u>98,945</u>	<u>169,273</u>
Net periodic pension cost	<u>\$ 248,615</u>	<u>\$ 357,167</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	5.50%
Expected long-term rate of return	8.00%	8.00%
Weighted average rate of compensation increase	3.50%	3.25%

The accumulated benefit obligation for the plan was \$7,850,949 and \$7,770,941 at December 31, 2007 and 2006, respectively.

Accrued benefit cost was \$48,242 and \$365,086 at December 31, 2007 and 2006, 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, 2007 and 2006, the plan had an AML of \$0- and \$355,122, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. The decrease in the AML during 2007 and 2006, respectively was \$355,122 and \$514,707.

The benefit obligation excludes liabilities for nonvested employees, which were \$27,871 and \$11,355 at December 31, 2007 and 2006, respectively.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

4. Employee Benefits, continued:

The expected long-term rate of return on assets assumption is 8.00%. 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, 2007 and 2006, by asset category are as follows:

	<u>2007</u>	<u>2006</u>
Asset category:		
Equity securities	62.0%	61.7%
Debt securities	36.4%	36.4%
Cash	1.6%	3.9%

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.

Contributions to the plan are expected to be \$569,838 in 2008.

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

2008	\$ 321,000
2009	343,000
2010	372,000
2011	449,000
2012	518,000
2013-2017	3,440,000

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

4. Employee Benefits, continued:

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.

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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	<u>\$ 266,723</u>	<u>\$ 446,038</u>
Accumulated postretirement benefit obligation in excess of plan assets	266,723	446,038
Unrecognized gain	653,444	538,968
Unrecognized prior service	<u>134,125</u>	<u>166,372</u>
Accrued postretirement benefit cost	<u>\$ 1,054,292</u>	<u>\$ 1,151,378</u>

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Accrued postretirement benefit cost at January 1	\$ 1,151,378	\$ 1,230,186
Benefit income for year	(70,015)	(47,650)
Benefits paid	<u>(27,071)</u>	<u>(31,158)</u>
Accrued postretirement benefit cost at December 31	<u>\$ 1,054,292</u>	<u>\$ 1,151,378</u>

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

4. Employee Benefits, continued:

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.50%	6.00%
Rate of compensation increase	4.00%	3.50%

Net periodic postretirement benefit cost for 2007 and 2006 includes the following components:

	<u>2007</u>	<u>2006</u>
Service cost	\$ -	\$ -
Interest cost	16,433	25,189
Amortization of gain	(32,247)	(32,247)
Amortization of prior service cost	<u>(54,201)</u>	<u>(40,592)</u>
Net periodic postretirement benefit cost	<u>\$ (70,015)</u>	<u>\$ (47,650)</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	5.50%
Weighted average rate of compensation increase	3.50%	3.25%

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 12% and 10% were assumed for 2007 and 2006, respectively. These rate increases were assumed to decrease through 2014 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, 2007 by \$18,692 and net periodic postretirement benefit cost for the year ended December 31, 2007 by \$1,125.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

4. Employee Benefits, continued:

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

2008	\$ 31,771
2009	29,544
2010	26,332
2011	30,298
2012	31,900
2013-2017	187,659

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 \$4,342 and \$4,002 in 2007 and 2006, respectively.

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>2007</u>	<u>2006</u>
Balance, January 1	<u>\$ 113,632</u>	<u>\$ 249,949</u>
Incurred related to:		
Current year	110,221	621,288
Prior years	<u>14,208</u>	<u>22,194</u>
Total incurred	<u>124,429</u>	<u>643,482</u>
Paid related to:		
Current year	109,530	566,394
Prior years	<u>126,458</u>	<u>213,405</u>
Total paid	<u>235,988</u>	<u>779,799</u>
Balance, December 31	<u>\$ 2,073</u>	<u>\$ 113,632</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 increased by \$14,208 and \$22,194 in 2007 and 2006, respectively.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

6. Lease Commitments:

The Association conducts its operations in leased premises under a lease that will expire April 30, 2008. At December 31, 2007, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:

2008	\$ 3,323
Total payments	<u>\$ 3,323</u>

Total rental expense was \$11,466 and \$10,601 in 2007 and 2006, 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.

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 2007 and 2006, \$469,499 and \$1,018,288, 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 \$50,255 and \$63,089 at December 31, 2007 and 2006, 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, 2007 and 2006:

	2007	
	Net income	Members' equity
As reported in the Annual Statement	\$ 356,617	\$ 134,090
2007 underwriting and other expense adjustment	<u>(4,452)</u>	<u>-</u>
As reported herein	<u>\$ 352,165</u>	<u>\$ 134,090</u>

The underwriting and other expense adjustment relates to the accounting for other post retirement benefits discussed in Note 4.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2007 and 2006

8. Annual Statement Reconciliation, continued:

	2006	
	Net loss	Members' deficit
As reported in the Annual Statement	\$ (110,336)	\$ (235,379)
2006 underwriting and other expense adjustment	(1,449)	-
As reported herein	<u>\$ (111,785)</u>	<u>\$ (235,379)</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, 2007

Total admitted assets at December 31, 2007

\$ 625,387

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.

<u>Investment category</u>	<u>Amount</u>	<u>Percentage of total admitted assets</u>
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.

<u>Bonds</u>	<u>Preferred stocks</u>
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).

<u>Investment category</u>	<u>Amount</u>	<u>Percentage of total admitted assets</u>
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, 2007

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, 2007**

<u>Investment categories</u>	<u>Gross investment holdings*</u>	<u>Admitted assets as reported in the annual statement</u>
Cash and short-term investments	<u>\$ 613,182</u> 100%	<u>\$ 613,182</u> 100%
Total invested assets	<u><u>\$ 613,182</u></u>	<u><u>\$ 613,182</u></u>

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

See accompanying independent auditors' report.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Reinsurance Interrogatories,
December 31, 2007 and 2006

Provided below are management's responses to certain reinsurance interrogatories required by NAIC Statutory Accounting Principles:

Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes () No (X)

Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- (c) Aggregate stop loss reinsurance coverage;
- (d) An unconditional or unilateral right by either or both parties to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes () No (X)

Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes () No (X)

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Reinsurance Interrogatories, continued

December 31, 2007 and 2006

Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62—Property and Casualty Reinsurance, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes () No (X)



Board of Directors
West Virginia Essential Property Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory basis financial statements of West Virginia Essential Property Insurance Association (the "Association") for the year ended December 31, 2007 and have issued our report thereon dated April 10, 2008. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants.
- b. The engagement partner is a certified public accountant and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Association intends to file the audited statutory financial statements and our report thereon with the Insurance Department of the State of West Virginia and that the insurance commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and insurance commissioners should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the respective department of insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud.

SMART and Associates, LLP
Certified Public Accountants
80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | www.smartgrp.com

SMART and Associates, LLP and SMART Business Advisory and Consulting, LLC have an alternative practice structure. The two companies are separate and independent legal entities that work together to meet clients' business needs. SMART Business Advisory and Consulting, LLC is not a licensed CPA firm.

Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement caused by fraud. In addition, an audit does not address the possibility that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditors' report.

- d. We will retain the workpapers prepared in the conduct of our audit no longer than seven years, and on instructions from the Association, will make them available for review by the Insurance Department of the State of West Virginia.
- e. This is our third year as auditor of the Association and the engagement partner is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Insurance Department of the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

Smart and Associates, LLC

April 10, 2008



April 10, 2008

To the Board of Directors
West Virginia Essential Property Insurance Association

We have audited the financial statements of the West Virginia Essential Property Insurance Association (the "Association") for the year ended December 31, 2007, and have issued our report thereon dated April 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Independence

Professional standards suggest that we communicate with you regarding all relationships between Smart and Associates, LLP ("SMART") and the Association that, in our professional judgment, may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since January 1, 2007.

We are not aware of any relationships between SMART and the Association that, in our professional judgment, may reasonably be thought to bear on our independence.

We hereby confirm that as of April 10, 2008, we are independent accountants with respect to the Association.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 19, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the statutory-basis financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting practices permitted or prescribed by the Insurance Department of the State of West Virginia. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit in March after management prepared the Association's yearend financial statements. Our audit was primarily substantive in nature with a focus on invested assets, reserves, premiums and claims. Our materiality thresholds were based on the Association's total assets as of December 31, 2007.

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability for pension and other post retirement benefits is determined using actuarial methods with calculations based on expected return on plan assets, expected compensation rate increases, discount rates, and future expected benefit payments. We evaluated the key assumptions used to develop the liability for pension and other post retirement benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and of the Association and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Smart and Associates, LLP