



---

## REPORT OF THE ANNUAL MEETING

---

April 20, 2010

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

## Board of Directors 2009-2010 Term

Mr. David V. Freeman, Chairman .....	Erie Insurance Group
Mr. Gary R. Auvil .....	Farmers Mutual Insurance Company
Mr. Thomas M. Giffen .....	Wells Fargo Insurance Services, Inc.
Mr. Glenn Hahn .....	State Farm Insurance Companies
Ms. Michele Lilly .....	Nationwide Insurance
Mr. Roger D. Wells .....	Westfield Companies
Mr. Jeffrey Williams, Esq. ....	Allstate Insurance Company
Mr. Daniel M. Taylor, Jr., Esq., General Counsel .....	Swartz Campbell LLC
Mr. John M. Ogle, President .....	West Virginia Essential Property Insurance Association

AGENDA  
ANNUAL MEETING  
OF THE  
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION  
APRIL 20, 2010  
8:30 A. M.  
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:30 A.M. - David V. Freeman, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 24, 2009
3. Ratification of Board Action
4. Report of Chairman
5. Report of President
6. Treasurer's Report
7. Appointment of Board of Directors 2010 - 2011  
(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 20, 2010  
8:30 a.m.  
Embassy Suites Hotel  
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 20, 2010 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 8:30 a.m. with 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 24, 2009 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors 2009-2010 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 2010 - 2011 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

Ms. Michele Lilly  
Nationwide Insurance

Mr. Roger D. Wells  
Westfield Companies

Mr. Jeffrey Williams  
Allstate Insurance Company

The General Manager noted the 2009 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.

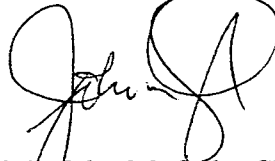
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,

A handwritten signature in black ink, appearing to read "David V. Freeman", with a long horizontal line extending to the right.

Mr. David V. Freeman  
Chairman of the Board

Respectfully submitted by,

A handwritten signature in black ink, appearing to read "John M. Ogle", with a large circular flourish at the end.

Mr. John M. Ogle, CPCU  
President

Report of the Chairman  
Mr. David V. Freeman

24th Annual Meeting  
West Virginia Essential Property Insurance Association  
April 20, 2010

Good Morning and welcome to the 24th Annual Meeting of the West Virginia Essential Property Insurance Association. I am pleased to report the West Virginia Essential Property Insurance Association continued to meet its purposes to provide a basis property insurance policy and in a timely efficient manner.

In over two decades of service to the West Virginia marketplace, the Association has issued more than 32,623 policies, earned \$12,523,246 in Premiums and incurred just over \$9,611,843 in losses.

As I reflect back over my years of tenure on this board, I am struck by the small, but vital role the Association has played in the West Virginia market. History tells us that 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 concern that the Association's expected 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 a gloom or doom scenario occurred. Through the tireless efforts of the staff and the Board, with the ongoing support from the West Virginia Insurance Department, the industry and the West Virginia State Legislature, the West Virginia Essential Property Insurance Association has become a model for the small, well run markets of last resort.

In 2009, the Association issued just 893 Policies and earned only \$536,544 in Premium. Losses Incurred were recorded at \$302,029. All in all, in 2009 the West Virginia Essential Property Insurance Association recorded a Net Result of Operations deficit of \$136,687.

In 1986, when the West Virginia Essential Property Insurance Association wrote its first policy, all business was transacted through the US Mail. Now, some 24 years later, the West Virginia FAIR Plan 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 and receive information. As we closed 2009 and look past 2010, we see the West Virginia Essential Property Insurance Association 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, are 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 Chairman, I would like to thank President, John M. Ogle and his management staff for all of their efforts and dedication to the success of Plan operations. 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 and commitment to the operation.

I would also like to thank General Counsel, Daniel M. 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 for supporting the Department heads and the Board in overseeing the operations.

Each year, it seems, brings new challenges and new people. In 2009, we not only lost to new assignments, our long time Chairman, Mr. David McMillen, and Arson Hotline Chairman, Mr. Michael Phelps, we also lost to retirement our Claim Committee Chairman and former colleague of mine at The Erie, Mr. Scott Huber. To all three, I would like to extend my thanks for a job well done and my personal best wishes for whatever the future brings. I know this winter retiree Scott was enjoying a sandy warm Florida beach while I was shoveling 160 inches of snow in Erie!

Lastly, 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 and more rewarding.

Respectfully submitted,



Mr. David V. Freeman  
Chairman of the Board

Report of the Chairman of the Board  
Mr. David V. Freeman  
West Virginia Essential Property Insurance Association  
Annual Meeting - April 20, 2010

Report of the President  
Mr. John M. Ogle

24<sup>th</sup> Annual Meeting  
West Virginia Essential Property Insurance Association  
April 20, 2010

Good Morning and welcome to the 24<sup>th</sup> Annual Meeting of the West Virginia Essential Property Insurance Association. As we close in on nearly a quarter of a century in business, I think back to all the individuals who contributed enormous amounts of their time and energy into this operation. From the very beginning there was always a sense of unknown about the Association's direction. Questions ranged from how many policies would eventually be written to how much money might be lost. The fear was always that far too many policies would find their way into the Association and far too much money would be lost. As has been reported in almost every Annual meeting since those early years, none of those fears came to pass.

In 2009, as it has been since the beginning, the West Essential Property Insurance Association was very small player in the West Virginia marketplace. In 2009, the Association issued just 873 policies, 14.6% less than what was issued in 2008. In fact, 2009 turned out to be the lowest policy count since the initial year of 1986. Premiums Earned totaled \$536,544, which was 17% less than 2008 and New Application counts fell by 22.6%. The decline in business activity ended there as Loss Reported rose by 50% and Losses Paid increased nearly 8%. All in all, in 2009 the Association suffered a year Net Result of Operations deficit of \$138,711.

Claim issues sometimes present difficult or unique challenges and more so in tough economic times. In 2009, the Association not only saw its claim counts increase it also experienced three large losses in excess of \$50,000.

The sense of unknown remains just as prevalent today as it did in 1985 and 1986. With the country in an economic recession and many of the pillars of the American economy experiencing government bailouts or heightened regulatory oversight, questions about the direction of the State's insurance market abound. Regardless, the Association remains ready and able to meet the needs of the property insurance buying public.

Over the years, the Association has had the good fortune of having some very talented individuals serving on the Board of Directors or on its various committees. Although 2009 was no exception, the Association did see long time Board member and Chairman, Mr. David McMillan, leave the Board. Dave's contribution to the Association dates back to the inception of the West Virginia Essential Property Association in 1985 and 1986 and his expertise will surely be missed. In addition, the Association also saw the retirement of long time Claim's Committee Chairman Scott Huber. Scott was with the Association since inception and his expertise will be



missed. Lastly, the Association's long time relationship with the West Virginia Arson Hotline program introduced us to the talents of Committee Chairman Mr. Michael Phelps. Mike's duties with his employer changed to the point that Mike was no longer able to serve as Arson Hotline Committee Chair and his contributions will be greatly missed. To these men, I would like to extend my personal thanks for all the years of service to the Association, and most importantly, to the friendships forged.

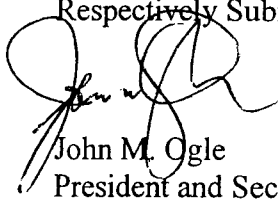
As the Association looks forward to whatever challenges that lie ahead, I would like to thank some individuals for their recent contributions to the Plan. Time and time again, General Counsel Dan Taylor provided his valuable service to the Association. For many years, the Association has avoided legal missteps because of Dan's clear and concise advice.

I would also like to thank the West Virginia Insurance Department and in particular, Commissioner Jane Cline, for their assistance in the operation of the Association. For many years we have enjoyed a mutually beneficial relationship with the Department and I believe much of the reason for that positive experience is due to the professional and talented individuals working within the Department.

As has been the case since the inception of the Association, the Insurance Placement Facility of Pennsylvania has provided the necessary services for the operation of the West Virginia Essential Property Insurance Association. Through this mutually beneficial shared services arrangement, the Association gains everything from claim expertise to IS services and I would be remiss if I did not thank the FAIR Plan employees for their many efforts to oversee the day to day West Virginia Operations.

In closing I would like to thank the members of the Board of Directors. Your willingness to actively serve the Association and donate your limited time and abundant expertise is greatly appreciated. Thank you.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "John M. Ogle", is written over the printed name and title.

John M. Ogle  
President and Secretary

**WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**

**WEST VIRGINIA FAIR PLAN**

Treasurer's Report

December 31, 2009

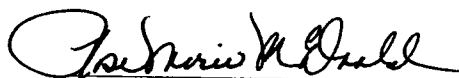
**ASSETS**

Cash in Bank	318,788.10
Investments, Short term at cost plus accumulated discount	320,386.87
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	5,595.70
Other Receivables	0.00
Equipment	0.00
Total Assets	<u>644,770.67</u>

**LIABILITIES AND MEMBERS' EQUITY**

Unearned Premiums	255,538.00
Unearned Advance Premiums	11,643.00
Outstanding Losses	71,400.00
Outstanding Loss Adjustment Expenses	26,075.00
Accrued Expenses	11,544.00
Unpaid Post Retirement Benefits	27,974.00
Unpaid Pension	49,934.00
Accounts Payable	2,329.42
Claims Checks Payable	85,953.15
Unpaid Premium Tax	7,604.47
Total Liabilities	<u>549,995.04</u>
Members' Equity (Deficit)	94,775.63
Total Liabilities and Members' Equity	<u>644,770.67</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

February 17, 2010

John M. Ogle, General Manager  
West Virginia Essential Property Insurance Association  
530 Walnut Street, Suite 1650  
Philadelphia, PA 19106-3698

Re: West Virginia Essential Property Insurance Association  
Board of Directors


Dear Mr. Ogle:

It is my privilege to appoint the following individuals to continue to serve on the West Virginia Essential Property Insurance Association's Board of Directors.

- Mr. Gary R. Auvil, Representing Farmers Mutual Insurance Company
- Mr. David V. Freeman, Representing Erie Insurance Group
- Mr. Thomas M. Giffen, Representing Wells Fargo Insurance Services
- Mr. Glenn Hahn, Representing State Farm Fire Insurance Companies
- Ms. Michele Lilly, Representing Nationwide Insurance Company
- Mr. Roger D. Wells, Representing Westfield Companies
- Mr. Jeffrey Williams, Representing Allstate Insurance Company

We appreciate their interest to participate on the Board and look forward to its continued success.

Sincerely,

  
Jane L. Cline  
Commissioner

JLC/pt



**WEST VIRGINIA ESSENTIAL PROPERTY  
INSURANCE ASSOCIATION**

Statutory Financial Statements,  
Independent Auditors' Report and  
Supplemental Schedules

For the years ended December 31, 2009 and 2008

---



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, 2009 and have issued our report thereon dated March 29, 2010. 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.smartandassociates.com](http://www.smartandassociates.com)

SMART and Associates, LLP and LECG, LLC have an alternative practice structure. The two companies are separate and independent legal entities that work together to meet clients' business needs. LECG, 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 fifth 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, LLP*

March 29, 2010

**WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**

**Table of Contents**

**For the years ended December 31, 2009 and 2008**

---

	<u>Page(s)</u>
Independent Auditors' Report	1
Statutory Financial Statements:	
Statutory Statements of Admitted Assets, Liabilities and Members' Equity (Deficit)	2
Statutory Statements of Operations and Members' Equity (Deficit)	3
Statutory Statements of Cash Flows	4
Notes to Statutory Financial Statements	5 – 11
Supplemental Schedules:	
Schedule 1 – Supplemental Investment Risk Interrogatories	12
Schedule 2 – Summary of Investments	13
Schedule 3 – Reinsurance Interrogatories	14



## 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, 2009 and 2008, 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.

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, 2009 and 2008, 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 Investment Risk Interrogatories, Summary Investment Schedule, and Reinsurance Interrogatories, as of and for the year ended December 31, 2009, are presented to comply with the National Association of Insurance Commissioner's Accounting Practices and Procedures manual and are 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*

March 29, 2010

SMART and Associates, LLP  
Certified Public Accountants  
80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | [www.smartandassociates.com](http://www.smartandassociates.com)

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



**WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**  
Statutory Statements of Admitted Assets, Liabilities and Members' Equity (Deficit)  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ADMITTED ASSETS</b>		
Cash and cash equivalents	\$ 639,175	\$ 581,643
Premiums receivable	<u>5,596</u>	<u>6,273</u>
Total admitted assets	<u><u>\$ 644,771</u></u>	<u><u>\$ 587,916</u></u>
<b>LIABILITIES AND MEMBERS' EQUITY (DEFICIT)</b>		
Liabilities:		
Unearned premiums	\$ 255,538	\$ 297,126
Due to related parties	85,953	59,248
Unpaid losses and loss adjustment expenses	97,475	87,358
Unearned advanced premiums	11,643	6,443
Postretirement benefits payable	27,974	33,380
Pension liability	49,934	113,167
Other liabilities	<u>21,478</u>	<u>21,675</u>
Total liabilities	549,995	618,397
Members' equity (deficit)	<u>94,776</u>	<u>(30,481)</u>
Total liabilities and members' equity (deficit)	<u><u>\$ 644,771</u></u>	<u><u>\$ 587,916</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Underwriting:		
Premiums earned	\$ 536,544	\$ 647,233
Less:		
Losses incurred	302,029	354,151
Loss adjustment expenses incurred	132,098	75,062
Underwriting and other expenses incurred	<u>241,128</u>	<u>264,777</u>
	<u>675,255</u>	<u>693,990</u>
Net underwriting loss	<u>(138,711)</u>	<u>(46,757)</u>
Investment income	<u>1,188</u>	<u>8,199</u>
Other income (expense):		
Premium receivable (charged off) recovered	715	(1,030)
Other income (expense)	<u>121</u>	<u>(71)</u>
Other income (expense), net	<u>836</u>	<u>(1,101)</u>
Net loss	(136,687)	(39,659)
Members' (deficit) equity, beginning of year	(30,481)	134,090
Change in nonadmitted assets	9,333	(11,745)
Change in minimum pension liability	63,492	(113,167)
Assessments	250,000	-
Refunds/assessments charged-off	<u>(60,881)</u>	<u>-</u>
Members' equity (deficit), end of year	<u>\$ 94,776</u>	<u>\$ (30,481)</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Premiums collected, net	\$ 502,481	\$ 584,680
Net investment income	1,188	8,199
Other income (expense)	836	(1,101)
Benefit and loss related payments	(303,992)	(282,288)
Commissions, expenses paid and aggregate write-in for deductions	<u>(361,239)</u>	<u>(330,080)</u>
Net cash used in operating activities	<u>(160,726)</u>	<u>(20,590)</u>
Cash flows from financing and other miscellaneous activities:		
Other cash applied	<u>218,258</u>	<u>(10,949)</u>
Net cash provided by (used in) financing and other miscellaneous activities	<u>218,258</u>	<u>(10,949)</u>
Net increase (decrease) in cash and cash equivalents	57,532	(31,539)
Cash and cash equivalents, beginning of year	<u>581,643</u>	<u>613,182</u>
Cash and cash equivalents, end of year	<u><u>\$ 639,175</u></u>	<u><u>\$ 581,643</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, 2009 and 2008.

---

## 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' (deficit) equity. Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' (deficit) equity.

### 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, 2009 and 2008

---

### 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 ("Member Company") 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.

During 2009, the Association approved a closeout of 2004 and 2005 policy years in the amount of \$66,284 with an offset against 2008 policy year in the amount of \$183,716 resulting in a net assessment of \$250,000.

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, 2009 and 2008

## 4. Employee Benefits:

The Facility, in conjunction with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Prudential Retirement Insurance and Annuity Company Pension Plan (the "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 provides retirement income based upon employee average annual compensation and years of service. The pension plan is funded through the trustee by contributions to group annuity contracts.

The Facility provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employee's basic annual salary. For employees who are under age 65 at retirement, the Facility 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 Facility pays the full cost of life insurance with coverage limited to \$5,000.

Retired employees of the Facility 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 Facility.

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 2.96% in 2009 and 3.28% in 2008.

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Change in projected benefit obligation:				
Benefit obligation at January 1	\$ 10,083,414	\$ 9,197,161	\$ 354,035	\$ 266,723
Service cost	170,542	164,883	-	57,662
Interest cost	617,831	583,355	27,670	16,415
Actuarial loss (gain)	390,209	383,768	126,438	38,301
Benefits paid	(280,527)	(245,753)	(38,620)	(25,066)
Benefit obligation at December 31	<u>\$ 10,981,469</u>	<u>\$ 10,083,414</u>	<u>\$ 469,523</u>	<u>\$ 354,035</u>
Change in plan assets:				
Fair value of plan assets at January 1	\$ 5,743,089	\$ 7,882,023	\$ -	\$ -
Actual return on plan assets	1,888,897	(2,463,025)	-	-
Employer contributions	600,030	569,844	38,620	25,066
Benefits paid	(280,527)	(245,753)	(38,620)	(25,066)
Fair value of plan assets at December 31	<u>\$ 7,951,489</u>	<u>\$ 5,743,089</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:				
Funded status	\$ (3,029,980)	\$ (4,340,325)	\$ (469,523)	\$ (354,035)
Unrecognized net actuarial loss (gain)	3,174,232	4,718,320	(405,917)	(561,785)
Unrecognized prior service cost	-	-	(69,631)	(101,878)
Prepaid assets or (accrued) liabilities	<u>\$ 144,252</u>	<u>\$ 377,995</u>	<u>\$ (945,071)</u>	<u>\$ (1,017,698)</u>

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2009 and 2008

## 4. Employee Benefits, continued:

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost	\$ 170,542	\$ 164,883	\$ -	\$ 57,662
Interest cost	617,831	583,355	27,670	16,415
Expected return on plan assets	(463,287)	(639,950)	-	-
Amount of prior service cost recognized	-	-	(32,247)	(32,247)
Amount of loss (gain) recognized	508,687	35,319	(29,430)	(53,358)
Net periodic benefit cost (income)	<u>\$ 833,773</u>	<u>\$ 143,607</u>	<u>\$ (34,007)</u>	<u>\$ (11,528)</u>

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	6.00%	6.50%	6.00%	6.00%
Weighted average rate of compensation increase	3.50%	4.00%	3.50%	4.00%
Expected long-term rate of return	8.00%	8.00%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	6.00%	6.00%	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

The accumulated benefit obligation for the pension plan was \$9,494,198 and \$8,815,319 at December 31, 2009 and 2008, respectively.

Prepaid pension benefit cost was \$144,252 and \$377,995 at December 31, 2009 and 2008, 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, 2009 and 2008, the plan had an AML of \$1,686,961 and \$3,450,225, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' equity (deficit). The (increase) decrease in the AML during 2009 and 2008 was \$1,763,264 and \$(3,450,225), respectively.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2009 and 2008

## 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, 2009 and 2008, by asset category are as follows:

	<u>2009</u>	<u>2008</u>
Asset category:		
Equity securities	58.1%	50.6%
Debt securities	39.0%	45.9%
Cash	2.9%	3.5%

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 pension and postretirement benefits plans are expected to be \$680,138 and \$39,025, respectively, in 2010.

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

	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2010	\$ 394,115	\$ 39,025
2011	485,954	42,562
2012	558,461	46,841
2013	619,341	50,151
2014	651,206	53,212
2015-2019	4,082,995	309,454



# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2009 and 2008

## 4. Employee Benefits, continued:

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 10.5% and 11% were assumed for 2009 and 2008, respectively. These rate increases were assumed to decrease through 2020 and later when they level off at 5%. The healthcare cost trend rate assumption has an effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1% Point Increase</u>	<u>1% Point Decrease</u>
Effects on total service and interest cost components	\$ 2,142	\$ (1,906)
Effects on postretirement obligation	37,845	(33,669)

The employees of the Facility are eligible to participate in the Insurance Company Supported Organization 401(k) Savings Plan, a defined contribution plan. The plan is administered by the Prudential Retirement Insurance and Annuity Company. 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 \$3,246 and \$3,831 in 2009 and 2008, 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>2009</u>	<u>2008</u>
Balance, January 1	<u>\$ 87,358</u>	<u>\$ 2,073</u>
Incurred related to:		
Current year	377,804	427,195
Prior years	<u>56,323</u>	<u>2,018</u>
Total incurred	<u>434,127</u>	<u>429,213</u>
Paid related to:		
Current year	281,692	341,027
Prior years	<u>142,318</u>	<u>2,901</u>
Total paid	<u>424,010</u>	<u>343,928</u>
Balance, December 31	<u><u>\$ 97,475</u></u>	<u><u>\$ 87,358</u></u>

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2009 and 2008

5. Liability for Unpaid Losses and Loss Adjustment Expenses, continued:

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 \$56,325 and \$2,018 in 2009 and 2008, respectively. Paid amounts above are net of salvage and subrogation recoveries.

6. Lease Commitments:

The Association conducts its operations in leased premises under a lease that will expire April 30, 2015. At December 31, 2009, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:

2010	\$ 10,311
2011	10,523
2012	10,735
2013	10,947
2014 and thereafter	<u>14,902</u>
Total payments	<u>\$ 57,419</u>

Total rental expense was \$8,078 and \$10,359 in 2009 and 2008, 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 2009 and 2008, \$607,428 and \$562,650, 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 \$85,953 and \$59,248 at December 31, 2009 and 2008, respectively.

8. Annual Statement Reconciliation:

There are no material differences between net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2009 and 2008.

## **SUPPLEMENTAL SCHEDULES**

**WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**  
Supplemental Investment Risk Interrogatories  
December 31, 2009

Total admitted assets at December 31, 2009

\$ 644,771

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.  
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, 2009

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
Cash and cash equivalents	<u>\$ 639,175</u>	<u>100.00%</u>	<u>\$ 639,175</u>	<u>100.00%</u>
Total invested assets	<u><u>\$ 639,175</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 639,175</u></u>	<u><u>100.00%</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, 2009

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 )

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 )