



REPORT OF THE ANNUAL MEETING

April 24, 2012

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors
2011-2012 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
Mr. Sam Fouse	Nationwide Insurance
Mr. Roger D. Wells	Westfield Companies
Mr. Jeffrey Williams, Esq.	Allstate Insurance Company
Mr. Daniel M. Taylor, Jr., Esq., General Counsel	Margolis Edelstein, Pittsburgh
Mr. John M. Ogle, President	West Virginia Essential Property Insurance Association

AGENDA
ANNUAL MEETING
OF THE
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
APRIL 24, 2012
8:00 A. M.
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:00 A.M. - David V. Freeman, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 20, 2011
3. Ratification of Board Action
4. Report of Chairman
5. Report of President
6. Treasurer's Report
7. Appointment of Board of Directors 2012 - 2013
(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 24, 2012
8:00 a.m.
Embassy Suites Hotel
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 24, 2012 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 8:00 a.m. with Chairman Mr. David V. Freeman presiding and President Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 20, 2011 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors 2011-2012 term was duly made, seconded and carried.

Upon motion duly made, seconded and carried, the readings of the Chairman's Report, the President'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 Michael D. Riley, the following individuals were appointed to the Board of Directors of the West Virginia Essential Property Insurance Association for the 2011 - 2012 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. Sam Fouse
Nationwide Insurance

Mr. Jeffrey Williams
Allstate Insurance Company

Mr. Roger D. Wells
Westfield Companies

The President noted the 2011 financial audit report provided by the accounting firm of WeiserMazars as presented and accepted by the Board of Directors will be made part of the Annual Report submitted to Member Companies.

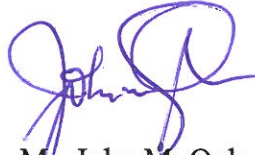
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,

A black ink signature of David V. Freeman, consisting of a stylized 'D' and 'F' followed by a horizontal line.

Mr. David V. Freeman
Chairman of the Board

Respectfully submitted by,

A purple ink signature of John M. Ogle, featuring a large, looped 'J' and 'O'.

Mr. John M. Ogle, CPCU
President / Secretary

Report of the Chairman

Mr. David V. Freeman

26th Annual Meeting

West Virginia Essential Property Insurance Association

April 24, 2012

Good Morning and welcome to the 26th Annual Meeting of the West Virginia Essential Property Insurance Association.

Since its inception 26 years ago, the Association has been a reliable source for those unable to secure property insurance in the voluntary marketplace. As we move past the 26 year mark, I am pleased to report the Association continues to meet the intent and purposes as outlined in the enabling legislation and regulation as established by the Commissioner in 1986.

The West Virginia Essential Property Insurance Association has always been a small operation with writings never in excess of \$900,000 and in force counts almost always below 2,000 policies. The lack of premiums and policies however, has not hindered the ability of the operation to conduct business in an efficient and effective manner. Since inception, we have had the good fortune of having the services of the Insurance Placement Facility of Pennsylvania to oversee our day to day operation. Their size has allowed us to operate at a far lower cost than would otherwise be possible, but more importantly, their size has also given us the expertise of a very knowledgeable and dedicated staff.

In 2011, while other areas suffered from severe winter weather, summer hurricanes and flooding the West Virginia Essential Property Insurance Association had a somewhat typical year weather-wise. The quiet weather however, did not prevent the Association from recording another deficit year. With Premiums Earned off almost 13% and with next to no investment income, there was little revenue to offset the increase in Losses Incurred and the corresponding Loss Adjustment Expense Incurred. The West Virginia Essential Property Insurance Association recorded a year end Net Result of Operations loss of \$191,277.

As it has done for many years, in 2011 the Association continued its commitment to the West Virginia Arson Hot Line program. The West Virginia Essential Property Insurance Association continues to be the sole source of funding for both operational expenses and reward payouts. The program continues to be another effective tool in combating arson in the state and 2011 was no exception with the Association paying out \$6,000 in rewards and expense.

Over the years, the Association has also enjoyed the great fortune of being supported by many talented individuals. Unfortunately, time moves along and so do some of those people.

Whether it's through retirement or a change in responsibilities, we seem to routinely have to say good bye and good luck to some of our long time friends. In particular, in 2011 Michelle Lilley of Nationwide Insurance took on other responsibilities and relocated to another area. I would like to thank Michelle for all her years of service and wish her all the best in her new assignment.

I would also like to acknowledge the support and contributions of the West Virginia Insurance Department. Over the years we have been very fortunate to have had an outstanding working relationship with the Department. The active support of the both former Commissioner Cline and current Commissioner Riley has always been appreciated. I also would like to thank the many members of the Department's staff who have lent us their advice and expertise over the many years. Your efforts have always been appreciated.

No annual report would be complete without the acknowledgement of our General Counsel. Mr. Daniel Taylor has served this board well for many years with his excellent advice and his efforts are appreciated.

In closing, I would like to thank President John Ogle and his staff for the daily efforts to operate the West Virginia Essential Property Insurance Association. Their efforts are what makes our small Plan run like any other larger residual market entity located in any number of other states.

Lastly, I would like to thank all of my fellow Board members. I appreciate your support as I would not be able to function as Chairman without your input. More importantly, I appreciate your enthusiasm for the Association and the expertise that you bring the boardroom. Thank you for all of your efforts.

Best Regards,

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

Mr. David V. Freeman
Chairman of the Board

Report of the President

Mr. John M. Ogle

26th Annual Meeting

West Virginia Essential Property Insurance Association

April 24, 2012

Good Morning and welcome to the 26th Annual Meeting of the West Virginia Essential Property Insurance Association.

Over the course of the last couple of meetings, I have used words like “change” and “uncertainty” to describe the circumstances of our recent time periods. When I began to think about the 2012 President’s report, I think it is safe to say some things changed but uncertainty is still the watchword.

I am pleased to report that the Association continued to meet its purpose and despite its small size, continued to serve the needs of those unable to secure coverage in the volunteer market.

On a global scale, the year saw the wholesale destruction of large areas of Japan and Thailand. In the east, residents experienced what was for many, the firsthand power of an earthquake and much of the metropolitan centers in the Northeast experienced the significant effects of a hurricane. In the Mountaineer state; however, no such significant events impacted the Association.

From a business perspective, the hurricane warnings of late August merely served to remind us that no area is immune to a substantial event and it is imperative that we remain ready to deal with the impact. As it was, West Virginia Essential Property saw a significant increase in severity of loss over 2010, but in relation to historical averages, severity merely returned to normal.

For the year, West Virginia Essential Property suffered two significant fire losses with a combined reserve in excess of \$150,000. There were only 13 losses reported in 2011, the same number as reported in 2010. Loss Incurred exceeded \$235,000 and the corresponding Loss Adjustment Expense Incurred climbed to just over \$166,000. With another year of limited investment returns, the West Virginia Essential Property Insurance Association recorded a 2011 Net Result of Operations loss of \$191,276.80.

2011 saw the local West Virginia marketplace remain somewhat stable and the Association saw its New Business Received fall by 7.5%.

Change occurred within the FAIR Plan office staff itself as several long time senior people left their positions for retirement.

Over the last 25 years the West Virginia Essential Property Insurance Association has remained a very small niche market for those unable to secure coverage in the normal marketplace. Annual Premiums Written have never exceeded \$900,000 and annual policy counts have only once been as high as 2,217. With only \$383,676 in Written Premium and just 709 policies issued in 2011, it is doubtful 2012 will see the Plan grow by any significant extent.

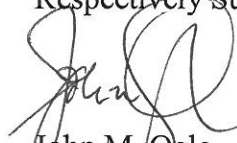
In closing, I would like to thank the members of my management staff and all of our employees for their fine efforts over these past 12 months. Much of what we accomplish was done so because of the efforts of many individuals working for the betterment of all. 2011 forced many employees to wear many hats during the year and I am very proud as to how each employee performed.

I would also like to thank General Counsel Daniel Taylor for his timely and sound legal advice throughout the year. Today's working and social environments have changed so dramatically from just a few years ago, but Dan has managed to steer the organization clear of many potential pitfalls.

I also think it is appropriate to thank the West Virginia Insurance Department. Over the years, we have maintained a very close relationship with the Department and that relationship is made possible by the support of past Commissioner Cline and current Commissioner Riley and their senior staff. Time does not permit me to personally thank all those folks inside the Department who have lent us their knowledge and expertise, but suffice it to say, their efforts are greatly appreciated.

Lastly, I would also like to thank all the members of the Board and its various Committees. Your interest, support and enthusiasm go a long way in running this organization. Whether it has been an email, a phone conversation or a meeting, members repeatedly have gone to great lengths to be engaged in the operation of the Association. I lack the proper words to express my gratitude other than to simply say, thank you.

Respectively Submitted,



John M. Ogle
President

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

WEST VIRGINIA FAIR PLAN

Treasurer's Report

December 31, 2011

ASSETS

Cash in Bank	313,681.04
Investments, Short term at cost plus accumulated discount	320,945.53
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	4,165.28
Other Receivables	0.00
Equipment *	0.00
Total Assets	<u>638,791.85</u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	189,902.00
Unearned Advance Premiums	5,852.00
Outstanding Losses	163,900.00
Outstanding Loss Adjustment Expenses	109,611.00
Accrued Expenses	12,794.00
Unpaid Post Retirement Benefits	29,035.00
Unpaid Pension	93,401.00
Accounts Payable	1,169.61
Claims Checks Payable	6,647.04
Unpaid Premium Tax	5,721.90
Total Liabilities	<u>618,033.55</u>
Members' Equity (Deficit)	20,758.30
Total Liabilities and Members' Equity	<u>638,791.85</u>

Respectfully Submitted,



RoseMarie McDonald
Accounting Manager



February 24, 2012

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
- Mr. Sam Fouse, 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,

Michael D. Riley
Insurance Commissioner

DMR/pt



WeiserMazars LLP

**West Virginia Essential
Property Insurance
Association**

**Statutory Financial Statements,
Independent Auditors' Report and
Supplemental Schedules
December 31, 2011 and 2010**



WeiserMazars

ACCOUNTING | TAX | ADVISORY

West Virginia Essential Property Insurance Association
Contents
December 31, 2011 and 2010

Page(s)

Independent Auditors' Report.....	1
--	----------

Statutory Financial Statements

Statutory Statements of Admitted Assets, Liabilities and Members' Equity.....	2
Statutory Statements of Operations and Members' Equity.....	3
Statutory Statements of Cash Flows.....	4
Notes to Statutory Financial Statements.....	5-11

Supplemental Schedules

Schedule 1 – Investment Risk Interrogatories.....	12
Schedule 2 – Summary of Investments.....	13
Schedule 3 – Reinsurance Interrogatories.....	14



WeiserMazars

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 of West Virginia Essential Property Insurance Association (the "Association") as of December 31, 2011 and 2010, and the related statutory statements of operations and members' equity 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 of West Virginia Essential Property Insurance Association as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the statutory financial statements taken as a whole. The accompanying supplemental Investment Risk Interrogatories, Summary Investment Schedule and Reinsurance Interrogatories of the Association as of December 31, 2011 and for the year then ended are presented for purposes of additional analysis to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and is not a required part of the basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory 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.

Weiser Mazars LLP

April 9, 2012

WEISERMAZARS LLP

110 GIBRALTAR ROAD, SUITE 116 - HORSHAM, PENNSYLVANIA - 19044

TEL: 215.259.1000 - FAX: 215.259.1010 - WWW.WEISERMAZARS.COM

WEISERMAZARS LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.



West Virginia Essential Property Insurance Association
Statutory Statements of Admitted Assets, Liabilities and Members' Equity
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Admitted Assets		
Cash and cash equivalents	\$ 634,626	\$ 616,072
Premiums receivable	<u>4,165</u>	<u>3,986</u>
Total admitted assets	<u><u>\$ 638,791</u></u>	<u><u>\$ 620,058</u></u>
Liabilities and Members' Equity		
Liabilities		
Unearned premiums	\$ 189,902	\$ 208,591
Due to related parties	6,647	13,787
Unpaid losses and loss adjustment expenses	273,511	8,278
Unearned advanced premiums	5,852	9,263
Postretirement benefits payable	29,035	26,312
Pension liability	93,401	56,256
Other liabilities	<u>19,686</u>	<u>19,036</u>
Total liabilities	618,034	341,523
Members' equity	<u>20,757</u>	<u>278,535</u>
Total liabilities and members' equity	<u><u>\$ 638,791</u></u>	<u><u>\$ 620,058</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
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Underwriting		
Premiums earned	<u>\$ 402,365</u>	<u>\$ 460,931</u>
Less		
Losses incurred	235,044	64,367
Loss adjustment expenses incurred	166,178	44,075
Underwriting and other expenses incurred	<u>192,633</u>	<u>206,810</u>
	<u>593,855</u>	<u>315,252</u>
Net underwriting (loss) gain	<u>(191,490)</u>	<u>145,679</u>
Interest income	<u>25</u>	<u>533</u>
Other income		
Premium receivable recovered	-	94
Other income	<u>187</u>	<u>332</u>
Other income, net	<u>187</u>	<u>426</u>
Net (loss) income	(191,278)	146,638
Members' equity, beginning of year	278,535	94,776
Change in nonadmitted assets	(11,888)	(4,674)
Change in minimum pension liability	(37,501)	(6,220)
Refunds/assessments (charged-off) recovered	<u>(17,111)</u>	<u>48,015</u>
Members' equity, end of year	<u>\$ 20,757</u>	<u>\$ 278,535</u>

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

West Virginia Essential Property Insurance Association
Statutory Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Premiums collected, net	\$ 379,517	\$ 412,813
Interest income	25	533
Other income	187	426
Benefit and loss related payments	(76,844)	(130,067)
Commissions, expenses paid and aggregate write-in for deductions	<u>(250,880)</u>	<u>(275,906)</u>
Net cash provided by operating activities	<u>52,005</u>	<u>7,799</u>
Cash flows from financing and other miscellaneous activities		
Other cash applied	<u>(33,451)</u>	<u>(30,902)</u>
Net increase (decrease) in cash and cash equivalents	18,554	(23,103)
Cash and cash equivalents, beginning of year	<u>616,072</u>	<u>639,175</u>
Cash and cash equivalents, end of year	<u><u>\$ 634,626</u></u>	<u><u>\$ 616,072</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
Years Ended December 31, 2011 and 2010

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 with maturities of one year or less from the acquisition date. 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.

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:

- Under Generally Accepted Accounting Principles, 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.

West Virginia Essential Property Insurance Association

Notes to Statutory Financial Statements

Years Ended December 31, 2011 and 2010

- Under Generally Accepted Accounting Principles, certain assets designated as “nonadmitted” would be reflected in the statutory statement of admitted assets, liabilities, and members’ deficit.
- Under Statutory Accounting Principles, calculation of the pension obligation excludes non-vested employees.

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

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 2011, the Association approved a closeout of 2006, 2007, 2008, and 2009 policy years in the amount of \$(409,737) with an offset assessment against 2010 and 2011 policy years in the amount of \$409,737. There was no assessment receivable from Member Companies at December 31, 2011.

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.

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 (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 Association 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 Association continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Association pays the full cost of life insurance with coverage limited to \$5,000.

West Virginia Essential Property Insurance Association

Notes to Statutory Financial Statements

Years Ended December 31, 2011 and 2010

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 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 2.64% in 2011 and 2.87% in 2010.

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

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Change in projected benefit obligation:				
Projected benefit obligation at January 1	\$ 12,238,994	\$ 10,981,469	\$ 599,548	\$ 469,523
Service cost	195,351	171,443	110,439	43,612
Interest cost	656,803	632,628	83,762	30,862
Plan amendments	-	-	-	70,985
Actuarial loss	1,344,721	686,450	1,101,557	19,276
Benefits paid	(326,757)	(232,996)	(40,609)	(34,710)
Projected benefit obligation at December 31	<u>\$ 14,109,112</u>	<u>\$ 12,238,994</u>	<u>\$ 1,854,697</u>	<u>\$ 599,548</u>
Change in plan assets:				
Fair value of plan assets at January 1	\$ 9,321,637	\$ 7,951,489	\$ -	\$ -
Actual return on plan assets	218,562	917,966	-	-
Employer contributions	889,044	685,178	40,609	34,710
Benefits paid	(326,757)	(232,996)	(40,609)	(34,710)
Fair value of plan assets at December 31	<u>\$ 10,102,486</u>	<u>\$ 9,321,637</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:				
Funded status	\$ (4,006,626)	\$ (2,917,357)	\$ (1,854,697)	\$ (599,548)
Unrecognized net actuarial loss (gain)	4,791,533	3,244,962	724,129	(357,399)
Unrecognized prior service cost	-	-	30,767	27,749
Prepaid assets or (accrued) liabilities	<u>\$ 784,907</u>	<u>\$ 327,605</u>	<u>\$ (1,099,801)</u>	<u>\$ (929,198)</u>

West Virginia Essential Property Insurance Association
Notes to Statutory Financial Statements
Years Ended December 31, 2011 and 2010

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

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	\$ 195,351	\$ 171,443	\$ 110,439	\$ 43,612
Interest cost	656,803	632,628	83,762	30,862
Expected return on plan assets	(691,591)	(574,894)	-	-
Amount of prior service cost recognized	-	-	(3,018)	(26,395)
Amount of loss (gain) recognized	271,179	272,648	20,029	(29,242)
Net periodic benefit cost (income)	<u>\$ 431,742</u>	<u>\$ 501,825</u>	<u>\$ 211,212</u>	<u>\$ 18,837</u>

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

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Discount rate	5.50%	6.00%	5.75%	6.00%
Weighted average rate of compensation increase	3.00%	3.00%	3.00%	3.50%
Expected long-term rate of return	7.25%	7.25%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Discount rate	4.75%	5.50%	4.75%	5.75%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%

The accumulated benefit obligation for the pension plan was \$12,855,509 and \$10,954,172 at December 31, 2011 and 2010, respectively.

Prepaid pension benefit cost was \$784,907 and \$327,605 at December 31, 2011 and 2010, 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, 2011 and 2010, the plan had an AML of \$3,537,930 and \$1,960,140, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. The increase (decrease) in the AML during 2011 and 2010, respectively was \$1,577,790 and \$273,179.

The pension benefit obligation excludes liabilities for nonvested employees, which were \$0 and \$71,246 at December 31, 2011 and 2010, respectively.

West Virginia Essential Property Insurance Association

Notes to Statutory Financial Statements

Years Ended December 31, 2011 and 2010

The expected long-term rate of return on assets assumption is 7.25%. 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, 2011 and 2010, by asset category are as follows:

	<u>2011</u>	<u>2010</u>
Asset category:		
Equity securities	50.8%	55.6%
Debt securities	46.7%	42.5%
Cash	2.5%	1.9%

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 pension and postretirement benefits plans are expected to be \$882,483 and \$56,512, respectively, in 2012.

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

	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2012	\$ 544,191	\$ 56,512
2013	620,961	67,186
2014	658,973	79,878
2015	729,422	88,844
2016	801,761	104,962
2017-2021	4,621,081	597,698

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 9.5% and 10.0% were assumed for 2011 and 2010, 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:

West Virginia Essential Property Insurance Association

Notes to Statutory Financial Statements

Years Ended December 31, 2011 and 2010

	<u>1% Point Increase</u>	<u>1% Point Increase</u>
Effects on total service and interest cost components	\$ 34,959	\$ (28,520)
Effects on postretirement obligation	267,130	(222,172)

The employees of the Association 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 \$2,766 and \$3,048 in 2011 and 2010, 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>2011</u>	<u>2010</u>
Balance, January 1	\$ 8,278	\$ 97,475
Incurring related to:		
Current year	368,288	111,405
Prior years	32,934	(2,963)
Total incurred	<u>401,222</u>	<u>108,442</u>
Paid related to:		
Current year	94,777	109,227
Prior years	41,212	88,412
Total paid	<u>135,989</u>	<u>197,639</u>
Balance, December 31	<u>\$ 273,511</u>	<u>\$ 8,278</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 (decreased) by \$32,934 and \$(2,963) in 2011 and 2010, respectively. Paid amounts above are net of salvage and subrogation recoveries.

West Virginia Essential Property Insurance Association
Notes to Statutory Financial Statements
Years Ended December 31, 2011 and 2010

6. Lease Commitments

The Association conducts its operations in leased premises under a lease that will expire April 30, 2015. At December 31, 2011, minimum rental commitments under this noncancelable lease are as follows:

Years Ending December 31:

2012	\$ 9,574
2013	9,763
2014	9,953
2015	<u>3,338</u>
Total payments	<u>\$ 32,628</u>

Total rental expense was \$9,771 and \$9,783 in 2011 and 2010, 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 (see Note 2) issues all checks for claims and other payables for the Association, and is then reimbursed by the Association. Throughout 2011 and 2010, \$296,900 and \$375,095, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Association. At December 31, 2011 and 2010, \$6,647 and \$13,787, respectively, is due to the Insurance Placement Facility of Pennsylvania.

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, 2011 and 2010.

9. Subsequent Events

The Association has evaluated subsequent events through April 9, 2012, which is the date these financial statements were available for issuance. Based on this evaluation, the Association is not aware of any events or transactions that occurred subsequent to the Association's year end and through this date that would require recognition or disclosure in its financial statements.

West Virginia Essential Property Insurance Association
Investment Risk Interrogatories
December 31, 2011

Total admitted assets at December 31, 2011 \$ 638,791

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, 2011

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
Cash and short-term investments	\$ 634,626	100.00%	\$ 634,626	100.00%
Total invested assets	<u>\$ 634,626</u>	<u>100.00%</u>	<u>\$ 634,626</u>	<u>100.00%</u>

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

West Virginia Essential Property Insurance Association
Reinsurance Interrogatories
December 31, 2011

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. 62R—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)