REPORT OF THE ANNUAL MEETING

April 23, 2013

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors
2012-2013Term

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	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 23, 2013
8:30 A.M.
CHARLESTON MARRIOTT TOWN CENTER - 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, 2012
3. Ratification of Board Action
4. Report of Chairman
5. Report of President
6. Treasurer's Report
7. Appointment of Board of Directors 2013 - 2014
   (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 23, 2013
8:30 a.m.
Charleston Marriott Town Center
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 23, 2013 at the Charleston Marriott 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 President Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 24, 2012 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors 2012-2013 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 2013 - 2014 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 2012 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.

Respectfully submitted by,

Mr. John M. Ogle, CPCU
President / Secretary

Approved by,

Mr. David V. Freeman
Chairman of the Board

Report of the Chairman

Mr. David V. Freeman

27th Annual Meeting

West Virginia Essential Property Insurance Association

April 23, 2013

Good Morning and welcome to the 27th Annual Meeting of the West Virginia Essential Property Insurance Association.

Since its inception 27 years ago, the Association has been a reliable source for those unable to secure property insurance in the voluntary marketplace. As we move towards three decades, 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 West Virginia Commissioner in 1986.

In 2012, Hurricane Sandy dominated the news and impacted the bottom line of many insurance carriers. The affects of the storm were even felt in parts of West Virginia but the Association recorded only five windstorm losses and posted just $4,126 in Loss Incurred. The lack of serious fire losses combined with the relatively quiet weather conditions yielded a 2012 Net Result of Operations surplus of $278,303.

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.

As it has done for many years, in 2012 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 2012 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. To those who have left us, I would like to offer my thanks for all of their help over the years.

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 look and 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,

Mr. David V. Freeman
Chairman of the Board

Report of the President

Mr. John M. Ogle

27th Annual Meeting

West Virginia Essential Property Insurance Association

April 23, 2013

Good Morning and welcome to the 27th 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 2013 President's report, I think it is safe to say some things may have changed but, uncertainty is still the watchword.

First of all, 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.

Nationally, the year saw the wholesale destruction of large areas of the New Jersey and New York coastlines thanks to Hurricane Sandy. The damage was not just coastal and significant loss occurred hundreds of miles inland. In the Mountaineer state; however, no such significant losses were reported and the Association escaped any serious impact.

From a business perspective, the hurricane warnings of late October 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 an increase in Losses Reported in 2012, but in relation to historical averages, loss counts remained within expectations.

For the year, West Virginia Essential Property did not suffer from the significant fire losses had it had in prior years and Loss Paid was only $134,138. With another year of limited investment returns, the West Virginia Essential Property Insurance Association recorded a 2012 Net Result of Operations surplus of $278,303.14.

2012 saw the local West Virginia marketplace remain somewhat stable and the Association saw its New Business Received hold steady with 2011.

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 $371,390 in Written Premium and just 663 policies issued in 2012, 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, 2012

ASSETS	
Cash in Bank	530,824.81
Investments, Short term at cost plus accumulated discount	320,970.27
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	2,166.33
Other Receivables	0.00
Equipment *	0.00
Total Assets	853,961.41

LIABILITIES AND MEMBERS' EQUITY	
Unearned Premiums	177,531.00
Unearned Advance Premiums	5,046.00
Outstanding Losses	1,000.00
Outstanding Loss Adjustment Expenses	278.00
Accrued Expenses	14,781.00
Unpaid Post Retirement Benefits	32,280.00
Unpaid Pension	100,244.00
Accounts Payable	1,500.04
Claims Checks Payable	22,729.72
Unpaid Premium Tax	5,044.21
Total Liabilities	360,433.97
Members' Equity (Deficit)	493,527.44
Total Liabilities and Members' Equity	853,961.41

Respectfully Submitted,

RoseMarie McDonald
Accounting Manager

* E. D. P. Equipment

STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner

Earl Ray Tomblin
Governor

Michael D. Riley
Insurance Commissioner

April 1, 2013

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

MR/jh

West Virginia Essential Property Insurance Association

Statutory Financial Statements and Supplemental Schedules
December 31, 2012 and 2011

West Virginia Essential Property Insurance Association
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December 31, 2012 and 2011

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Independent Auditors' Report

To the Board of Directors
West Virginia Essential Property Insurance Association

We have audited the accompanying financial statements of the West Virginia Essential Property Insurance Association, which comprise the statutory statements of admitted assets, liabilities, and members' equity as of December 31, 2012 and 2011, and the related statutory statements of operations and members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' equity of the West Virginia Essential Property Insurance Association as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia as described in Note 1.

WeiserMazars LLP
501 Office Center Drive, Suite 300 – Fort Washington, Pennsylvania – 19034
Tel: 215.259.1000 – Fax: 215.259.1010 – www.weisermazars.com

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Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by the West Virginia Essential Property Insurance Association in accordance with accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Department of the State of West Virginia. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Investment Risks Interrogatories, Summary Investment Schedule, and Reinsurance Interrogatories are presented for purposes of additional analysis and are not a required part of the 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 the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the board of directors and management of the West Virginia Essential Property Insurance Association and 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.

WeiserMazars LLP

April 9, 2013

West Virginia Essential Property Insurance Association

Statutory Statements of Admitted Assets, Liabilities and Members' Equity
December 31, 2012 and 2011

	2012	2011
Admitted Assets		
Cash and cash equivalents	$ 851,795	$ 634,626
Premiums receivable	2,166	4,165
Total admitted assets	$ 853,961	$ 638,791
Liabilities and Members' Equity		
Liabilities		
Unearned premiums	$ 177,531	$ 189,902
Due to related parties	22,730	6,647
Unpaid losses and loss adjustment expenses	1,278	273,511
Advance premiums	5,046	5,852
Postretirement benefits payable	32,280	29,035
Pension liability	100,244	93,401
Other liabilities	21,325	19,686
Total liabilities	360,434	618,034
Members' equity	493,527	20,757
Total liabilities and members' equity	$ 853,961	$ 638,791

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, 2012 and 2011

	2012	2011
Underwriting:		
Premiums earned	$ 383,761	$ 402,365
Losses incurred	(28,762)	235,044
Loss adjustment expenses incurred	(72,031)	166,178
Underwriting and other expenses incurred	205,519	192,633
	104,726	593,855
Net underwriting gain (loss)	279,035	(191,490)
Interest income	25	25
Other (expense) income:		
Premium receivable written off	(1,491)	-
Other income	735	187
Other (expense) income, net	(756)	187
Net income (loss)	278,304	(191,278)
Members' equity, beginning of year	20,757	278,535
Change in nonadmitted assets	(7,685)	(11,888)
Change in minimum pension liability	(6,842)	(37,501)
Assessments	200,000	-
Refunds/assessments recovered (charged-off)	8,993	(17,111)
Members' equity, end of year	$ 493,527	$ 20,757

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, 2012 and 2011

	2012	2011
Cash from operations		
Premiums collected, net	$ 373,147	$ 379,517
Benefit and loss related payments	(134,138)	(76,844)
Commissions, expenses paid and aggregate write-in for deductions	(241,511)	(250,880)
Interest income	25	25
Other (expense) income	(756)	187
Net cash from operations	(3,233)	52,005
Cash from financing and miscellaneous sources		
Assessments	200,000	-
Other cash provided (applied)	20,402	(33,451)
Net cash from financing and miscellaneous sources	220,402	(33,451)
Net increase in cash and cash equivalents	217,169	18,554
Cash and cash equivalents, beginning of year	634,626	616,072
Cash and cash equivalents, end of year	$ 851,795	$ 634,626

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

1. Summary of Significant Accounting Policies

The statutory financial statements of West Virginia Essential Property Insurance Association (the "Association") have been prepared, except as to form, in conformity with statutory accounting practices ("SAP") as promulgated by the National Association of Insurance Commissioners ("NAIC") and as prescribed or permitted by the Insurance Department of the State of West Virginia (the "Insurance Department"). Such practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). 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.

Non-admitted Assets

Certain assets designated as "non-admitted" are not reflected in the statutory statements of admitted assets, liabilities, and members' equity. Non-admitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' 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 GAAP. The principal differences are as follows:

- Under GAAP, 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.

- Under GAAP, certain assets designated as "non-admitted" would be reflected in the statutory statement of admitted assets, liabilities, and members' deficit.
- Under SAP, 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 2012, the Association approved an assessment of the 2010 and 2011 policy years for $200,000. This amount has been charged directly to members' equity in 2012. 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, 2012.

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.

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 2.69% in 2012 and 2.64% in 2011.

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in projected benefit obligation:				
Projected benefit obligation at January 1	$14,109,112	$12,238,994	$ 1,854,697	$ 599,548
Service cost	210,331	195,351	43,161	110,439
Interest cost	657,739	656,803	81,271	83,762
Actuarial loss	1,416,675	1,344,721	77,182	1,101,557
Benefits paid	(414,662)	(326,757)	(48,613)	(40,609)
Projected benefit obligation at December 31	$15,979,195	$14,109,112	$ 2,007,698	$ 1,854,697
Change in plan assets:				
Fair value of plan assets at January 1	$10,102,486	$ 9,321,637	$ -	$ -
Actual return on plan assets	1,290,196	218,562	-	-
Employer contributions	882,480	889,044	48,613	40,609
Benefits paid	(414,662)	(326,757)	(48,613)	(40,609)
Fair value of plan assets at December 31	$11,860,500	$10,102,486	$ -	$ -
Reconciliation of funded status:				
Funded status	$ (4,118,695)	$ (4,006,626)	$(2,007,698)	$(1,854,697)
Unrecognized net actuarial loss	5,169,608	4,791,533	778,261	724,129
Unrecognized prior service cost	-	-	29,440	30,767
Prepaid assets or (accrued) liabilities	$ 1,050,913	$ 784,907	$(1,199,997)	$(1,099,801)

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Components of net periodic benefit cost:				
Service cost	$ 210,331	$ 195,351	$ 43,161	$ 110,439
Interest cost	657,739	656,803	81,271	83,762
Expected return on plan assets	(746,087)	(691,591)	-	-
Amount of prior service cost recognized	-	-	1,327	(3,018)
Amount of loss recognized	494,491	271,179	23,050	20,029
Net periodic benefit cost	$ 616,474	$ 431,742	$ 148,809	$ 211,212

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Discount rate	4.75%	5.50%	4.75%	5.75%
Weighted average rate of compensation increase	3.00%	3.00%	N/A	3.00%
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	
	2012	2011	2012	2011
Discount rate	4.00%	4.75%	4.00%	4.75%
Rate of compensation increase	3.00%	3.00%	N/A	3.00%

The accumulated benefit obligation for the pension plan was $14,536,116 and $12,855,509 at December 31, 2012 and 2011, respectively.

Prepaid pension benefit cost was $1,050,913 and $784,907 at December 31, 2012 and 2011, 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, 2012 and 2011, the plan had an AML of $3,726,529 and $3,537,930, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. The increase in the AML during 2012 and 2011, respectively was $188,599 and $1,577,790.

The pension benefit obligation excludes liabilities for nonvested employees, which were $40,953 and $0 at December 31, 2012 and 2011, respectively.

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, 2012 and 2011, by asset category are as follows:

	2012	2011
Asset category:		
Equity securities	54.4%	50.8%
Debt securities	43.4%	46.7%
Cash	2.2%	2.5%

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 $689,904 and $60,788, respectively, in 2013.

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

	Pension Benefits	Postretirement Benefits
2013	$ 595,842	$ 60,788
2014	638,745	70,554
2015	714,249	81,474
2016	796,284	94,330
2017	862,311	97,039
2018-2022	4,929,680	571,296

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 9.0% and 9.5% were assumed for 2012 and 2011, 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:

	1% Point Increase	1% Point Decrease
Effects on total service and interest cost components	$ 21,247	$ (17,377)
Effects on postretirement obligation	280,710	(265,795)

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 75% of their annual compensation; not to exceed the maximum amount allowed by the Internal Revenue Service each plan year. The Association matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Association amounted to $2,763 and $2,766 in 2012 and 2011, 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:

	2012	2011
Balance, January 1	$ 273,511	$ 8,278
Incurred related to:		
Current year	91,356	368,288
Prior years	(192,149)	32,934
Total incurred	(100,793)	401,222
Paid related to:		
Current year	90,078	94,777
Prior years	81,362	41,212
Total paid	171,440	135,989
Balance, December 31	$ 1,278	$ 273,511

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses (decreased) increased by $(192,149) and $32,934 in 2012 and 2011, 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, 2012, minimum rental commitments under this noncancelable lease are as follows:

Years Ending December 31:	
2013	$ 9,948
2014	10,141
2015	3,402
Total payments	$ 23,491

Total rental expense was $9,786 and $9,771 in 2012 and 2011, 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 2012 and 2011, $338,587 and $296,900, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Association. At December 31, 2012 and 2011, $22,730 and $6,647, 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, 2012 and 2011.

9. Subsequent Events

The Association has evaluated subsequent events through April 9, 2013, the date these financial statements were available for issuance. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Total admitted assets at December 31, 2012	$ 853,961

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 Investment Schedule
December 31, 2012

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
Cash and short-term investments	$ 851,795	100.00%	$ 851,795	100.00%
Total invested assets	$ 851,795	100.00%	$ 851,795	100.00%

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

See accompanying independent auditors' report

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WeiserMazars

Board of Directors
West Virginia Essential Property Insurance Association

In planning and performing our audit of the statutory financial statements of the West Virginia Essential Property Insurance Association (the "Association") as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the use of management, the Board of Directors and the Insurance Department of the State of West Virginia. In addition, the Insurance Department should understand that the criteria used by us in considering the internal control structure could differ significantly from the criteria that the Insurance Department may be using for its purpose.

WeiserMazars LLP

April 9, 2013

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West Virginia Essential Property Insurance Association
Reinsurance Interrogatories
December 31, 2012

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 31 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)

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 financial statements of West Virginia Essential Property Insurance Association (the "Association") for the year ended December 31, 2012 and have issued our report thereon dated April 9, 2013. 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.

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 second 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.

WeiserMazars LLP

April 9, 2013