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## REPORT OF THE ANNUAL MEETING

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April 19, 2016



WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

190 N. Independence Mall West  
Philadelphia, PA 19106-1554

Board of Directors

2015-2016

Mr. David V. Freeman, Chairman .....	Erie Insurance Group
Mr. Glenn Hahn, Vice Chairman .....	State Farm Insurance Companies
Mr. Tim Dyer .....	Dyer Insurance Group
Mr. Samuel Fouse .....	Nationwide Insurance
Mr. Noel Patterson .....	Allstate Insurance Company
Mr. Nick Piekarski .....	Westfield Companies
Mr. Foster Sirbaugh.....	Farmers and Mechanics Insurance Cos

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 19, 2016  
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 29, 2015
3. Ratification of Board and Officer's Action
4. Report of Chairman
5. Report of President
6. Treasurer's Report
7. Appointment of Board of Directors 2016 - 2017  
(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 19, 2016  
8:30 a.m.  
Embassy Suites  
Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 19, 2016 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 8:30 a.m. with Chairman Mr. David V. Freeman presiding and President Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 29, 2015 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors and the Officers 2015-2016 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 2016 - 2017 term.

Mr. David V. Freeman  
Erie Insurance Group

Mr. Glenn Hahn  
State Farm Insurance Companies

Mr. Tim Dyer  
Dyer Insurance Group

Mr. Sam Fouse  
Nationwide Insurance

Mr. Noel Patterson  
Allstate Insurance Company


Mr. Nick Piekarski  
Westfield Companies

Mr. Foster L. Sirbaugh Jr.  
Farmers and Mechanics

The President noted the 2015 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

30<sup>th</sup> Annual Meeting

West Virginia Essential Property Insurance Association

April 19, 2016

Welcome to the 30th Annual Meeting of the West Virginia Essential Property Insurance Association (WVEPIA). As we close three decades of operation, I am pleased to report that the Association continues to meet its primary purpose of making basic property insurance available to those property owners who have been unable to secure such coverage in the voluntary marketplace.

Despite a downturn in West Virginia's coal industry and the sizable rural nature of the state, there remains a large number of companies doing business in West Virginia. With many companies active in the marketplace, it is not a surprise that the State's residual property insurance market remained very small. In 2015, the WVEPIA issued just 531 policies, a decline of just over 11%, and earned just \$343,981 in premium.

Despite the lower volume, the WVEPIA managed an almost breakeven year-end result, recording a 2015 Net Result of Operations deficit of just \$11,460.25.

Since inception, much of the WVEPIA business has come from the southwest corner of the state and nothing in 2015 changed that ratio. Notwithstanding however, the Association still has policies in force in most areas of the state including in the far northern reaches and in the eastern panhandle. Some of that business has been with the WVEPIA for many years and some of it will be with the Association for only a very short time. Regardless of where it comes from or why it comes to the Association, the WVEPIA remains ready and able to meet the needs of insurance buying public.

As we have done for many years, in 2015 the WVEPIA continued to act as the sole financial provider for the West Virginia Anti-Arson Hotline program. It is with great satisfaction that I can report that 2015 represented the 20<sup>th</sup> consecutive year of reward payments for individuals who provided authorities with the critical information that lead to the arrest and conviction of those individuals who committed the crime of arson.

As has been the case since inception, the West Virginia Essential Property Insurance Association continues to be run with the full support and staffing of the Insurance Placement Facility of Pennsylvania. Although that arrangement benefits both organizations, the WVEPIA and the West Virginia insurance industry reap the greatest financial benefit as such

a small plan could not be efficiently operated with such a small premium base.

In closing, I would like to thank the members of the West Virginia Insurance Department and in particular, Commissioner Riley for all their support to the Association's operation. We are very fortunate to have such an attentive Department of Insurance staffed with some very dedicated and talented individuals.

In addition, my appreciation also goes out to Mr. John M. Ogle and the very fine members of his Staff. Their dedication to the Association is evident in so many ways and I think I speak for all the Board when I say we take great comfort knowing the operation is in such capable hands.

I would also like to recognize the contributions of our General Counsel Mr. Daniel M. Taylor. Mr. Taylor's timely and well thought out advice has served the Board well over the years and 2015 was no exception.

Every year it seems the Board of Directors or the staff lose some very talented individuals to retirement or a job change and 2015 was no exception. Last year we saw the retirement of long time Board member Mr. Thomas Giffen who had served on the Board since the Association's inception. Tom's experience and knowledge will be greatly missed. To all of those who have served the WVEPIA in any manner, I would like to offer my personal thanks and gratitude for all their years of service.

Lastly, I would like to thank all of my fellow Board members for their support and dedication. I realize that many travel considerable distance and sometimes under less than ideal circumstances. During our meetings, I am constantly amazed at your knowledge and your willingness to take time from your busy schedules to assist in the oversight of the WVEPIA. For all of your efforts, I am indeed grateful.

Thank you.

Respectively submitted,

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

Mr. David Freeman  
Chairman of the Board

Report of the President  
Mr. John M. Ogle

30<sup>th</sup> Annual Meeting  
West Virginia Essential Property Insurance Association  
April 19, 2016

Good Morning and welcome to the 30<sup>th</sup> Annual Meeting of the West Virginia Essential Property Insurance Association.

As I look back to 1986, I recall the uncertainty that overhung the planning process. There was no consensus among all those involved, including myself, as to what the future of this new Association would become. We did not know if it would be a large or small operation and we certainly had no idea as the Association's eventual losses or gains.

As West Virginia's business climate ebbed and flowed, so did the State's property insurance market. As a State not prone to the large scale hurricane exposures, West Virginia eventually found itself with an active insurance market.

The result was the West Virginia Essential Property Insurance Association continues to be a very small player in the marketplace. Overall, in 2015, the Association issued almost 11.4% fewer policies than it did in 2014. Overall, the Association earned just \$343,981 in premiums, offset by \$146,670 in Loss and Loss Adjustment Expense Incurred, resulting in a year-end Net Result of Operations loss of \$11,460.

Over the last three decades of operation, annual Premiums Written exceeded \$800,000 on only two occasions and annual Policy Issued counts have only once been as high as 2,217. Despite its limited size, the operation has still managed to pay out just over \$10,302,425 in claim payments.

The Association, since its inception, has benefited from its cost sharing arrangements with the Pennsylvania FAIR Plan. Their involvement greatly reduces the Association's operational expenses and to a large degree benefits both entities.

One item none of us fully appreciated in those early days was the direction of technology. We all knew it would impact the business world, but I don't think anyone realized the impact for the everyday consumer. With the explosion of the internet, digital cell phones, the social network and text messaging, every facet of everyday business was impacted.

The West Virginia Essential Property Insurance Association is not immune from such challenges.

2015 saw two significant events unfold for the operation in general. The Association reduced the size of its office space and moved its location to a more affordable building. At the same time, the Association committed itself to the replacement of its legacy policy and claims management operating systems. Both projects impacted current spending but are expected to have a positive impact against the Association's long term expenses.

Change also occurred within the Board and the FAIR Plan staff itself. Although the loss of knowledge and expertise is difficult, I am grateful for all the years of service and the friendships that resulted.


In closing, I would like to thank the members of my management team and all of our employees for their efforts over these past 12 months. The move to a new location required the Staff members to wear many hats but that job pales in comparison to the work involved in the ongoing software project. Much of what is accomplished by the Plan is done so because of the efforts of many individuals working for the betterment of all.

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 the many potential pitfalls.

I also would like to thank the West Virginia Insurance Department and in particular Commissioner Riley. Your helpful interest in the West Virginia Essential Property Insurance Association is greatly appreciated.

Lastly, I would like to thank all the members of the Board. 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 go to great lengths to be engaged in the operation of the Plan. Your efforts and support are greatly appreciated.

Respectively Submitted,



John M Ogle CPCU  
President

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## WEST VIRGINIA FAIR PLAN

### Treasurer's Report

December 31, 2015

#### **ASSETS**

Cash in Bank	491,963.60
Investments, Short term at cost plus accumulated discount	321,041.21
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	2,291.46
Other Receivables	0.00
Equipment *	0.00
Total Assets	<u>815,296.27</u>

#### **LIABILITIES AND MEMBERS' EQUITY**

Unearned Premiums	169,237.00
Unearned Advance Premiums	13,528.00
Outstanding Losses	17,000.00
Outstanding Loss Adjustment Expenses	2,031.00
Accrued Expenses	6,499.00
Unpaid Post Retirement Benefits	106,702.00
Unpaid Pension	102,477.00
Accounts Payable	(2,560.86)
Claims Checks Payable	1,350.55
Unpaid Premium Tax	4,998.12
Total Liabilities	<u>421,261.81</u>
Members' Equity (Deficit)	394,034.46
Total Liabilities and Members' Equity	<u>815,296.27</u>

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

March 1, 2016

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. David V. Freeman, Representing Erie Insurance Group
- Mr. Glenn Hahn, Representing State Farm Insurance Companies
- Mr. Sam Fouse, Representing Nationwide Insurance Company
- Mr. Tim Dyer, Representing Dyer Insurance Group
- Mr. Noel Patterson, Representing Allstate Insurance Company
- Mr. Foster L. Sirbaugh, Jr., Representing Farmers and Mechanics
- Mr. Roger D. Wells, Representing Westfield Companies

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, 2015 and 2014**

# West Virginia Essential Property Insurance Association

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December 31, 2015 and 2014

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## Independent Auditors' Report

To the Board of Directors  
West Virginia Essential Property Insurance Association

### Report on the Financial Statements

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, 2015 and 2014, 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 Offices of the Insurance Commissioner 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, 2015 and 2014, 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 Offices of the Insurance Commissioner 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

WEISERMAZARS LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.

**Basis of Accounting**

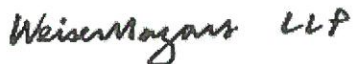
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by the West Virginia Essential Property Insurance Association in accordance with accounting practices prescribed or permitted by the Offices of the Insurance Commissioner 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 Offices of the Insurance Commissioner 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 Risk 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 Offices of the Insurance Commissioner of the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.



April 4, 2016

**West Virginia Essential Property Insurance Association**  
**Statutory Statements of Admitted Assets, Liabilities and Members' Equity**  
**December 31, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
<b>Admitted Assets</b>		
Cash and cash equivalents	\$ 813,005	\$ 879,340
Premiums receivable	<u>2,291</u>	<u>5,123</u>
Total admitted assets	<u><u>\$ 815,296</u></u>	<u><u>\$ 884,463</u></u>
<b>Liabilities and Members' Equity</b>		
<b>Liabilities</b>		
Unearned premiums	\$ 169,237	\$ 182,678
Unpaid losses and loss adjustment expenses	19,031	73,231
Due to related parties	1,351	9,284
Advance premiums	13,528	11,144
Postretirement benefits payable	106,702	88,360
Pension liability	102,477	67,286
Other liabilities	<u>8,936</u>	<u>17,520</u>
Total liabilities	421,262	449,503
Members' equity	<u>394,034</u>	<u>434,960</u>
Total liabilities and members' equity	<u><u>\$ 815,296</u></u>	<u><u>\$ 884,463</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Underwriting:		
Premiums earned	<u>\$ 343,981</u>	<u>\$ 358,797</u>
Losses incurred	123,700	150,025
Loss adjustment expenses incurred	23,001	3,520
Underwriting and other expenses incurred	<u>211,004</u>	<u>219,256</u>
	<u>357,705</u>	<u>372,801</u>
Net underwriting loss	<u>(13,724)</u>	<u>(14,004)</u>
Interest income	<u>24</u>	<u>23</u>
Other income (expense):		
Premium receivable recovered	56	444
Other income (expense)	<u>2,184</u>	<u>(1,165)</u>
Other income (expense), net	<u>2,240</u>	<u>(721)</u>
Net loss	(11,460)	(14,702)
Members' equity, beginning of year	434,960	480,271
Change in nonadmitted assets	845	(2,373)
Change in pension and postretirement benefits liability	(34,486)	(52,007)
Refunds/assessments recovered	<u>4,175</u>	<u>23,771</u>
Members' equity, end of year	<u><u>\$ 394,034</u></u>	<u><u>\$ 434,960</u></u>

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

**West Virginia Essential Property Insurance Association**  
**Statutory Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
Cash from operations		
Premiums collected, net	\$ 336,601	\$ 352,174
Benefit and loss related payments	(173,300)	(174,024)
Commissions, expenses paid and aggregate write-in for deductions	(245,110)	(242,566)
Interest income	24	23
Other income (expense)	<u>2,240</u>	<u>(721)</u>
Net cash from operations	<u>(79,545)</u>	<u>(65,114)</u>
Cash from financing and miscellaneous sources		
Other cash provided	<u>13,210</u>	<u>5,210</u>
Net decrease in cash and cash equivalents	(66,335)	(59,904)
Cash and cash equivalents, beginning of year	<u>879,340</u>	<u>939,244</u>
Cash and cash equivalents, end of year	<u><u>\$ 813,005</u></u>	<u><u>\$ 879,340</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, 2015 and 2014

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### 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 Offices of the Insurance Commissioner of the State of West Virginia. 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:

#### **Permitted Practice**

The West Virginia Offices of the Insurance Commissioner has permitted certain accounting practices that differ from those found in SAP. Specifically, during 2015, the Association received permission from the West Virginia Offices of the Insurance Commissioner to use accounting practices that differ from SAP regarding the incentive of six months of free rent and reimbursement of moving expenses under a new lease agreement that commenced May 1, 2015. SAP requires incentives to be recognized over the term of the lease. The Association received permission to not record any rent expense for the months of May through October 2015, and also to expense the cost of the move at the time it is due and when reimbursement is received using the same expense categories. The free rent for the months May through October 2015 totaled \$3,087 and the Association was reimbursed for moving expenses of \$1,286 in 2015.

#### **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 "nonadmitted" are not reflected in the statutory statements of admitted assets, liabilities, and members' equity. Nonadmitted 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.

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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**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 “nonadmitted” would be reflected in the statutory statement of admitted assets, liabilities, and members’ deficit.

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.

The Association did not approve any assessments during 2015. During 2014, the Association approved a closeout of 2010 and 2011 policy years in the amount of \$(701,695) with an offset assessment against 2013 policy year in the amount of \$701,695. There was no assessment receivable from Member Companies at December 31, 2015.

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

**3. Federal Income Taxes**

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

# West Virginia Essential Property Insurance Association

## Notes to Statutory Financial Statements

Years Ended December 31, 2015 and 2014

### 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 2.77% in 2015 and 2.78% in 2014.

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Change in projected benefit obligation:				
Projected benefit obligation at January 1	\$ 17,503,244	\$ 15,721,443	\$ 3,178,406	\$ 2,407,175
Service cost	205,850	216,055	26,405	26,868
Interest cost	696,036	690,206	155,464	138,862
Plan amendments	-	14,044	-	(254,278)
Actuarial gain	457,287	1,338,764	606,517	944,369
Benefits paid	(590,287)	(477,268)	(114,729)	(84,590)
Projected benefit obligation at December 31	<u>\$ 18,272,130</u>	<u>\$ 17,503,244</u>	<u>\$ 3,852,063</u>	<u>\$ 3,178,406</u>

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Change in plan assets:				
Fair value of plan assets at January 1	\$ 15,082,890	\$ 14,015,933	\$ -	\$ -
Actual return on plan assets	(269,291)	954,317	-	-
Employer contributions	349,284	589,908	114,729	84,590
Benefits paid	(590,287)	(477,268)	(114,729)	(84,590)
Fair value of plan assets at December 31	<u>\$ 14,572,596</u>	<u>\$ 15,082,890</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of unassigned surplus:				
Funded status	\$ (3,699,534)	\$ (2,420,354)	\$ (3,852,063)	\$ (3,178,406)
Unrecognized net actuarial loss	4,941,758	3,967,187	1,644,234	1,301,485
Unrecognized prior service cost	11,779	27,920	122,507	158,974
Prepaid assets or (accrued) liabilities in unassigned surplus	<u>\$ 1,254,003</u>	<u>\$ 1,574,753</u>	<u>\$ (2,085,322)</u>	<u>\$ (1,717,947)</u>

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	\$ 205,850	\$ 216,055	\$ 26,405	\$ 26,868
Interest cost	696,036	690,206	155,464	138,862
Expected return on plan assets	(817,003)	(977,366)	-	-
Amount of prior service cost recognized	-	-	4,396	7,322
Amount of prior non-vested liability recognized	16,141	13,876	32,071	63,647
Amount of loss recognized	569,010	192,637	263,768	107,841
Net periodic benefit cost	<u>\$ 670,034</u>	<u>\$ 135,408</u>	<u>\$ 482,104</u>	<u>\$ 344,540</u>

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	3.80%	4.50%	3.95%	4.80%
Weighted average rate of compensation increase	3.00%	3.00%	N/A	N/A
Expected long-term rate of return	5.50%	7.00%	N/A	N/A

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	4.15%	3.80%	4.30%	3.95%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The accumulated benefit obligation for the pension plan was \$17,116,234 and \$16,278,016 at December 31, 2015 and 2014, respectively.

Prepaid pension benefit cost was \$1,254,003 and \$1,574,753 at December 31, 2015 and 2014, respectively.

The expected long-term rate of return on assets assumption is 5.5%. 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, 2015 and 2014, by asset category are as follows:

	2015	2014
Asset category:		
Equity securities	40.1%	50.1%
Debt securities	58.7%	48.9%
Cash	1.2%	1.0%

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

The plan's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, Fair Value Measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SSAP No. 100 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in the methodologies used at December 31, 2015 and 2014.

Pooled Separate Accounts: Investments in pooled separate accounts are valued at fair value, based on the applicable percentage of net assets of the pooled separate accounts as of the measurement date, as determined by Principal. In determining fair value, Principal utilizes valuations calculated for the pooled separate accounts. The pooled separate accounts value securities and other financial instruments on a fair value basis of accounting. The pooled separate accounts invest in domestic and foreign stocks, mutual funds, commercial paper and money market funds. The fair values of these investments are based on quoted prices or other observable inputs and are used by Principal in determining the fair value of the pooled separate accounts. The fair value of the Plan's investments in pooled separate accounts generally represents the amount the Plan would expect to receive if it were to liquidate its investments.

Partnerships/Joint Venture Interests: Investments in investment partnerships/joint venture interests are valued at fair value based on the applicable percentage ownership of the investment partnerships'/joint ventures' net assets as of the measurement date, as determined by the Plan. In determining fair value, the Plan utilizes valuations provided by the investment partnerships/joint ventures. The investment partnerships/joint ventures value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the investment partnerships/joint ventures, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships/joint ventures and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Plan's investments in investment partnerships/joint ventures generally represents the amount the Plan would expect to receive if it were to liquidate its investment in the investment partnerships/joint ventures.

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

Managed Accounts: Managed accounts that hold individual investments are valued at the closing price of shares for domestic and foreign stocks.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes that its valuation method is appropriate and consistent with those of other market participants, the use of a different methodology to determine the fair value could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the gross assets of the plan as of December 31, 2015 and 2014. The Association, Insurance Placement Facility of Pennsylvania, and Insurance Placement Facility of Delaware have a total interest in plan assets of approximately 1.44% and 1.39% as of December 31, 2015 and 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2015</u></b>				
Managed accounts				
Small cap equity	\$ 128,310,181	\$ -	\$ -	\$ 128,310,181
Large cap equity	263,343,028	-	-	263,343,028
Pooled separate accounts				
International equity	-	99,788,288	-	99,788,288
Fixed income	-	508,589,297	-	508,589,297
Cash	-	8,401,328	-	8,401,328
Partnerships/Joint venture interests				
Limited partnerships	-	-	467,812	467,812
Total assets at fair value	<u>\$ 391,653,209</u>	<u>\$ 616,778,913</u>	<u>\$ 467,812</u>	<u>\$ 1,008,899,934</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2014</u></b>				
Managed accounts				
Small cap equity	\$ 182,821,733	\$ -	\$ -	\$ 182,821,733
Pooled separate accounts				
Large cap growth	-	188,268,454	-	188,268,454
Large cap value	-	104,495,245	-	104,495,245
International equity	-	99,724,143	-	99,724,143
Fixed income	-	494,631,020	-	494,631,020
Cash	-	15,455,351	-	15,455,351
Partnerships/Joint venture interests				
Limited partnerships	-	-	535,896	535,896
Total assets at fair value	<u>\$ 182,821,733</u>	<u>\$ 902,574,213</u>	<u>\$ 535,896</u>	<u>\$ 1,085,931,842</u>

Contributions to the pension and postretirement benefits plans are expected to be \$500,004 and \$157,546, respectively, in 2016.

# West Virginia Essential Property Insurance Association

## Notes to Statutory Financial Statements

Years Ended December 31, 2015 and 2014

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

	Pension Benefits	Postretirement Benefits
2016	\$ 883,191	\$ 157,546
2017	913,650	156,020
2018	932,454	155,680
2019	1,027,281	166,915
2020	1,051,656	177,689
2021-2025	5,964,531	1,087,541

Flat annual contributions are made to retirees Health Reimbursement Accounts and the retiree is responsible for securing health insurance. Contributions are expected to grow with general inflation and are around 3%, but are not tied to health care trend rates.

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 \$3,016 and \$2,973 in 2015 and 2014, 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:

	2015	2014
Balance, January 1	\$ 73,231	\$ 117,639
Incurred related to:		
Current year	135,023	195,758
Prior years	11,678	(42,213)
Total incurred	146,701	153,545
Paid related to:		
Current year	115,992	122,527
Prior years	84,909	75,426
Total paid	200,901	197,953
Balance, December 31	\$ 19,031	\$ 73,231

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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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 \$11,678 and \$(42,213) in 2015 and 2014, respectively. The unfavorable (favorable) loss reserve development during 2015 and 2014 is based on loss expense reserves settling for amounts different than those estimated and is not attributable to any specific event or occurrence. 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 expired April 30, 2015. The Association has signed a new 10.5-year lease effective May 1, 2015. The Association has the option to renew its lease for an additional five year period. At December 31, 2015, minimum rental commitments under these noncancelable leases are as follows:

Years Ending December 31:

2016	\$ 6,259
2017	6,388
2018	6,516
2019	6,645
2020	6,774
Thereafter	<u>34,554</u>
Total payments	<u>\$ 67,136</u>

Total rental expense was \$5,013 and \$11,373 in 2015 and 2014, 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 2015 and 2014, \$366,666 and \$383,328, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Association. At December 31, 2015 and 2014, \$1,351 and \$9,284, 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, 2015 and 2014.

**West Virginia Essential Property Insurance Association**  
**Notes to Statutory Financial Statements**  
**Years Ended December 31, 2015 and 2014**

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**9. Subsequent Events**

The Association has evaluated subsequent events through April 4, 2016, the date these financial statements were available for issuance.

**West Virginia Essential Property Insurance Association**  
**Investment Risk Interrogatories**  
**December 31, 2015**

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Total admitted assets at December 31, 2015 \$ 815,296

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 Association; 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 <span style="float: right;">\$ -</span>	None <span style="float: right;">\$ -</span>

3. The Association holds no foreign investments.  
4. The Association holds no Canadian investments.  
5. The Association 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 Association holds no nonaffiliated, privately placed equities.  
8. The Association holds no general partnership interests.  
9. The Association holds no mortgage loans.  
10. The Association holds no real estate.  
11. The Association has no repurchase agreements.  
12. The Association does not hold warrants.  
13. The Association does not have exposure to collars, swaps, or forwards.  
14. The Association does not have exposure for futures contracts.  
15. The Association does not have amounts in the Write-Ins for Invested Assets category on the Summary Investment Schedule.

**West Virginia Essential Property Insurance Association**  
**Summary Investment Schedule**  
**December 31, 2015**

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Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
Cash and short-term investments	\$ 813,005	100.00%	\$ 813,005	100.00%
Total invested assets	\$ 813,005	100.00%	\$ 813,005	100.00%

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

**West Virginia Essential Property Insurance Association**  
**Reinsurance Interrogatories**  
**December 31, 2015**

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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, 2015 and have issued our report thereon dated April 4, 2016. 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 and the Rules of Professional Conduct of the Pennsylvania Board of Public Accountancy.
- b. The engagement partner and engagement manager are certified public accountants and are experienced in auditing insurance entities. Members of the engagement team, most of whom have had experience in auditing insurance entities, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Offices of the Insurance Commissioner 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.

Although 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 the 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, as well as the results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Offices of the Insurance Commissioner of the State of West Virginia. 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 misstatement resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or 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 be 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 Offices of the Insurance Commissioner of the State of West Virginia.

The insurance commissioner should exercise due diligence to obtain whatever other information 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 until the Offices of the Insurance Commissioner of the State of West Virginia has filed a Report of Examination covering 2015, but no longer than seven years. After notification to the Association, we will make the working papers available for review by the Offices of the Insurance Commissioner of the State of West Virginia at the offices of the insurer, at our offices, at the Offices of the Insurance Commissioner, or any other reasonable place designated by the insurance commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Offices of the Insurance Commissioner of the State of West Virginia photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Offices of the Insurance Commissioner of the State of West Virginia.
- e. The engagement partner has served in that capacity with respect to the Association since 2012, is licensed by the Pennsylvania Board of Public Accountancy and 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 Annual Financial Reporting Model Regulation Mode Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Offices of the Insurance Commissioner of the State of West Virginia and is not intended to be and should not be used for anyone other than this specified party.

*WeiserMazars LLP*

April 4, 2016

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, 2015, 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 auditing procedures that are appropriate in the circumstances 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 a 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider unremediated material weaknesses as previously defined as of December 31, 2015. However, unremediated material weaknesses may exist that were not identified.

This communication is intended solely for the use of management, the Board of Directors and the Offices of the Insurance Commissioner 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 4, 2016

