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## REPORT OF THE ANNUAL MEETING

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April 29, 2003

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors  
2002-2003 Term

Mr. William Lingenfelter, Chairman .....	State Farm Insurance Companies
Mr. Jerrold Murphy, Vice Chairman .....	Erie Insurance Group
Mr. Thomas M. Giffen .....	Acordia of West Virginia
Mr. David A. McMillen. ....	Westfield Companies
Mr. Gary R. Auvil .....	Farmers Mutual Insurance Company
Ms. Michele Lilly .....	Nationwide Insurance
Mr. Jeffrey Williams, Esq. ....	Allstate Insurance Company

Mr. Samuel P. Gerace, Esq. ....	General Counsel
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Mr. John M. Ogle, CPCU .....	General Manager
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AGENDA  
ANNUAL MEETING  
OF THE  
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION  
APRIL 29, 2003  
8:30 A. M.  
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

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1. Call to Order - 8:30 A.M. - William Lingenfelter, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 25, 2002
3. Ratification of Board Action
4. Report of Chairman
5. Report of General Manager
6. Treasurer's Report
7. Appointment of Board of Directors 2003 - 2004  
(Appointment by Insurance Commissioner)
8. Adjournment

Minutes of the Annual Meeting  
of the  
Board of Directors of the  
West Virginia Essential Property Insurance Association  
April 29, 2003  
Embassy Suites Hotel  
Charleston, West Virginia  
7:30 a.m.

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 29, 2003 at the Embassy Suites Hotel in Charleston, West Virginia. The Annual Meeting was called to order at 7:30 a.m. with Chairman Mr. William Lingenfelter presiding and Mr. John M. Ogle acting as secretary.

Upon motion duly made, the Minutes of the April 25, 2002 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors for the 2002 -2003 term were duly made, seconded and carried.

Upon motion duly made, seconded and carried, the reading of the Chairman's Report, the General Manager's Report and the Treasurer's Report were waived as all three reports were included in the agenda packet and will be incorporated into the Annual Report made available to Member Companies. The reports were accepted as presented.

General Manager John M. Ogle provided the 2002 year end financial audit report as provided by the auditing firm of KMPG Peat Marwick. The report was accepted by the Board and made part of the Annual Report submitted to Members Companies

By notice from the West Virginia Insurance Commissioner, the Honorable Jane L. Cline, the following individuals were appointed to the Board of Directors of the West Virginia Essential Property Insurance Association for the 2003-2004 term.

Mr. Gary R. Auvil  
Farmers Mutual Insurance Company

Mr. David V. Freeman  
Erie Insurance Group

Mr. Thomas M. Giffen  
Acordia Mid-Atlantic

Ms. Michele Lilly  
Nationwide Insurance Company

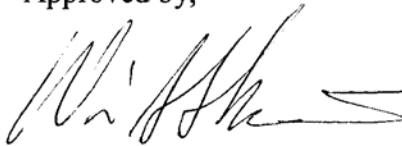
Mr. William Lingenfelter  
State Farm Insurance Companies

Mr. David A. McMillen  
Westfield Companies

Mr. Jeffrey Williams, Esq.  
Allstate Insurance Company

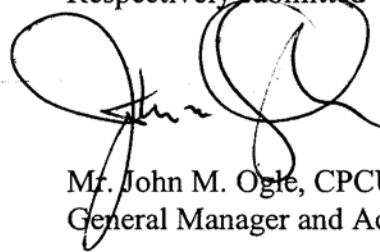
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. William Lingenfelter  
Chairman of the Board of Directors

Respectively submitted



Mr. John M. Ogle, CPCU  
General Manager and Acting Secretary

17<sup>th</sup> ANNUAL MEETING of Members  
of  
the West Virginia Essential Property Insurance Association

on April 29, 2003

Report of the Chairman  
Mr. William Lingenfelter

Good Morning and welcome to the 17<sup>th</sup> Annual Meeting of the Members of the West Virginia Essential Property Insurance Association. As Chairman, it is my pleasure to report on the operations of the Association for the past year. While many of these areas will be covered in detail in the General Manager's Report, I am very pleased to report to you that the Association continues to fully meet its obligations as required by the relevant West Virginia laws and regulations.

It has now been nearly 18 months since the events of September 11, 2001 and as we speculated one year ago, it appears that even the West Virginia Essential Property Insurance Association has been impacted. In addition to an increase in new business applications, the Plan had to devote resources to ensure compliance with the Terrorism Risk Insurance Act of 2002, the USA Patriot Act of 2001, specifically the Treasury Department's Office of Foreign Assets Control. Like many organizations, the new regulations were not always clear and complete; however, I am pleased to report that the West Virginia Essential Property Insurance Association is in compliance with both Federal Acts.

From purely a business perspective, the West Virginia Essential Property Insurance Association marketplace appears to be somewhat tight in certain areas. In 2002, the West Virginia Association earned \$432,857 in Premium, an increase of 12.4%. The West Virginia Essential Property Insurance Association incurred \$192,801 in Losses, \$61,151 in Loss Adjustment Expenses and \$200,626 in Underwriting Expenses resulting in a year end Underwriting loss of just \$31,404. The result was an improvement from the \$278,901 lost in 2001. The West Virginia FAIR Plan received 507 applications, or an increase of over 47%. The total number of Policies Issued increased just over 20% to 1,155 as a result of a 36% increase in New Policies Issued and a 14% in Renewal Business.

Over the past one and half decades, the Association has issued almost 23,000 policies and written over \$7.5 million in premium. During that time, the West Virginia Association has also incurred over \$6.9 million in Losses. Although the Association has experienced times of growth and

decline, it has always operated with a sharp eye on controlling expenses. The most recent years continue that long standing tradition.

As has been the case for the last 17 years, the West Virginia Essential Property Insurance Association receives its management and functional support from the Insurance Placement of Pennsylvania. That arrangement has greatly reduced our costs and has proven extremely beneficial to both organizations. Most of all I am pleased that the Pennsylvania management continues to provide the same high quality and professional services to our small operation.

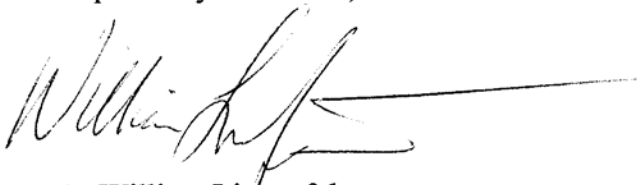
During the most recent decade, the West Virginia Essential Property Insurance Association has held steady in almost all statistical categories. The decline in business in 2000 and 2001 forced a review of our procedures and to rethink our priorities and because of those decisions, the West Virginia Plan is better able to handle the current influx of business without adding to its staff size. I am also pleased to report the West Virginia Essential Property Insurance Association held 2002 spending within \$3,000 of the planned and approved budget.

I would like to thank General Manager, John Ogle and his management staff for all of their efforts. At the same time, I would like to recognize each employee for their continuing efforts to provide service in a timely and efficient manner to the policyholders, agents and the brokers as well as the various member companies and regulatory personnel. I would also be remiss if I did not recognize the fine job of the West Virginia Insurance Department.

This past year has brought many new faces to our Board of Directors and its committees. To those individuals who have left our organization I would like to express my best wishes for their future endeavors and my gratitude for their past contributions.

In closing, I would like to thank General Counsel Sam Gerace for his tireless service to the organization. Sam has, for many years, provided the Board with his review and advice on a variety of issues. His opinions have served the Plan and the Board well. Lastly, I would like to thank my fellow Board Members for their participation and support. The job of Chairman certainly carries its own demands, but the job performed by my fellow board and committee members certainly has made my job of Chairman much easier.

Respectively submitted,

A handwritten signature in dark ink, appearing to read 'William Lingenfelter', with a long horizontal line extending to the right.

Mr. William Lingenfelter  
Chairman of the Board of Directors

Report of the General Manager  
Mr. John M. Ogle  
West Virginia Essential Property Insurance Association  
Annual Meeting  
April 29, 2003  
Charleston, West Virginia  
7:30 a.m.

Good Morning. It is my pleasure to be here this morning and welcome you to Charleston and the 17<sup>th</sup> annual meeting of the West Virginia Essential Property Insurance Association.

As I reflect on 2002, I think it can best be described as a year of change, but certainly not unexpected change. One year ago, with September 11<sup>th</sup> fresh in our minds, we knew that our country in general and the insurance industry in particular was facing a significant challenge. During the course of the last twelve months we saw not only an increase in our business but also a change in the laws and/or regulations under which we operate. The West Virginia Essential Property Insurance Association experienced a 47.4% increase in New Business Applications Received and a Total Written Premium increase of 31%. In addition, the federal government passed terrorism back stop legislation that imposed certain conditions or requirements on our manner of doing business. In addition, we are now required to ensure that we are not unwittingly doing business with individuals or businesses listed on the U. S. Treasury Department's list of prohibited customers. As the industry recovers from the single largest insured loss in history, there are sure to be many more changes to the West Virginia marketplace and I am pleased to report that the West Virginia Essential Property Insurance Association is ready to meet the challenges that lie ahead.

In 2002, the Plan saw considerable growth in both New and Renewal Business. As I indicated, New Applications Received rose 47.4% to 507. New Policies Issued rose 36.3% to 413 and Renewal Business increased 13.6% to 742. Overall, the Plan wrote 20.8% more policies than it did in 2001. Premiums Written rose just over 31% to \$497,677 while the Average Habitational Premium and the Average Commercial Premium both recorded increases. On the claims side, the Association recorded 35 losses during the year, an increase of almost 80% from the 25 reported during 2001. The Plan paid out; however, just \$167,801 in 2002, a considerable decrease from the 2001 pay out of \$536,483. The Average Paid Loss decreased to \$7,991. Overall, the West Virginia Essential Property Insurance Association recorded a Net Result of Operations deficit, which includes Investment Income and Other Income and Expenses, of \$31,404.



The Plan finished 2002 just over our anticipated spending levels as a result of increased new business and its related costs. The increase in premiums combined with stable expenses, dropped our total expense ratio to 54.2%

During the course of the year, the management team took several steps designed to reduce our costs and/or increase our efficiency. In 2002, we went on-line with a user-friendly website. In particular, the site allows visitors to rate their own property, download their own forms, submit endorsements or inspection requests, and even report a claim. In addition, we disposed of just under 50% of our pre-printed stock forms. The website should reduce routine phone traffic while the reduction in forms is designed to help control our paper, printing and mailing costs.

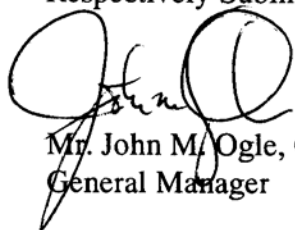
The year also included considerable activities surrounding the Terrorism Risk Insurance Act of 2002 and the USA Patriots Act of 2001. Both items required our attention and I am very pleased to report that we are in compliance.

Despite a year of changes and uncertainty, the Plan maintained a high level of quality work product. Service standards were routinely met in both internal and external audits giving the staff members high marks.

In closing, I would like to acknowledge all the members of my very fine staff. I feel lucky to be associated with so many dedicated and professional people. It is through their efforts that the day to day operations work so well. To them, I am daily indebted. I would also like to thank General Counsel Sam Gerace and the members of his former law firm, Jones, Gregg, Creehan & Gerace. Their response to any of our needs is routinely thorough and timely. I would also like to thank the West Virginia Insurance Department and Commissioner Cline in particular. The Department has been most supportive of the Plan and extremely well versed in the issues faced by our Association.

Lastly, I would like recognize the efforts of the Board Chairman, the Members of the Board and the Committees, the West Virginia State Fire Marshall's Office and the dedicated individuals of the Arson Hot Line Program. I am amazed at the number of people who so freely and willingly give up their considerable expertise and time to see the West Virginia Essential Property Insurance Association through the many pitfalls it faces. I am most appreciative of your involvement and support.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "John M. Ogle", is written over a circular stamp. The signature is fluid and cursive.

Mr. John M. Ogle, CPCU  
General Manager

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## WEST VIRGINIA FAIR PLAN

### Treasurer's Report

December 31, 2002

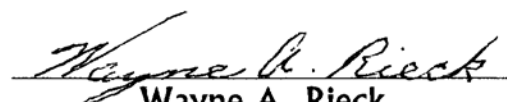
#### **ASSETS**

Cash in Bank	365,617.53
Investments, Short term at cost plus accumulated discount	64,901.59
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	4,063.80
Other Receivables	0.00
Prepaid Premium Tax	0.00
Equipment	0.00
	<hr/>
Total Assets	<u><u>434,582.92</u></u>

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

Unearned Premiums	271,421.00
Unearned Advance Premiums	3,629.00
Outstanding Losses	83,500.00
Outstanding Loss Adjustment Expenses	20,034.00
Accrued Expenses	10,544.00
Unpaid Post Retirement Benefits	23,501.00
Accounts Payable	492.85
Claims Checks Payable	31,012.81
Unpaid Premium Tax	8,325.88
	<hr/>
Total Liabilities	452,460.54
Members' Equity (Deficit)	<u>(17,877.62)</u>
	<hr/>
Total Liabilities and Members' Equity	<u><u>434,582.92</u></u>

Respectfully Submitted,

  
Wayne A. Rieck  
Accounting Manager



1601 Market Street  
Philadelphia, PA 19103-2499

## **Independent Auditors' Report**

The Board of Directors  
West Virginia Essential Property Insurance Association:

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' deficit of the West Virginia Essential Property Insurance Association (the Association) as of December 31, 2002 and 2001, and the related statutory statements of operations and members' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The Association's liabilities exceeded its assets by \$35,633 at December 31, 2002 and \$192,462 at December 31, 2001. Such amounts, however, are recoverable from member companies (note 2).

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of West Virginia Essential Property Insurance Association as of December 31, 2002 and 2001, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' deficit of West Virginia Essential Property Insurance Association as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in note 1.



As described more fully in note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of West Virginia. As of January 1, 2001, the Insurance Department of the State of West Virginia has adopted the National Association of Insurance Commissioners' statutory accounting practices. Consequently, the Association changed its basis of accounting in 2001 as described in note 1.

Our audits were made for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The supplementary information included on the supplemental investment risk interrogatories in Schedule 1 and the summary of investments in Schedule 2 is presented for purposes of additional analysis and is not a required part of the basic statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

KPMG LLP

April 4, 2003

**WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION**

Statutory Statements of Admitted Assets, Liabilities, and Members' Deficit

December 31, 2002 and 2001

<b>Admitted Assets</b>	<b>2002</b>	<b>2001</b>
Cash	\$ 365,617	64,533
Short-term investments, at amortized cost which approximates market value	64,902	64,178
Premiums receivable	4,064	3,315
Total admitted assets	<u>\$ 434,583</u>	<u>132,026</u>
<b>Liabilities and Members' Deficit</b>		
Liabilities:		
Unearned premiums	\$ 271,421	204,312
Due to related parties	31,013	2,721
Unpaid losses and loss adjustment expenses	103,534	85,032
Postretirement benefits payable	19,718	17,867
Pension liability	21,045	562
Unearned advanced premiums	3,629	2,289
Other liabilities	19,856	11,705
Total liabilities	<u>470,216</u>	<u>324,488</u>
Members' deficit	<u>(35,633)</u>	<u>(192,462)</u>
Total liabilities and members' deficit	<u>\$ 434,583</u>	<u>132,026</u>

See accompanying notes to statutory financial statements.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Statutory Statements of Operations and Members' Deficit

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Underwriting:		
Premiums earned	\$ <u>432,857</u>	<u>385,204</u>
Less:		
Losses incurred	171,801	482,983
Loss adjustment expenses incurred	61,152	45,524
Underwriting and other expenses incurred	<u>218,381</u>	<u>158,074</u>
	<u>451,334</u>	<u>686,581</u>
Net underwriting loss	<u>(18,477)</u>	<u>(301,377)</u>
Net investment income	<u>724</u>	<u>4,537</u>
Other (expense) income:		
Premiums receivable charged off	(10,772)	(3,257)
Other	<u>367</u>	<u>196</u>
Other expense, net	<u>(10,405)</u>	<u>(3,061)</u>
Net loss	(28,158)	(299,901)
Members' deficit, beginning of year	(192,462)	(130,994)
Change in nonadmitted assets	(463)	(1,077)
Member contributions	185,450	438,166
Refund to members	<u>—</u>	<u>(198,656)</u>
Members' deficit, end of year	\$ <u><u>(35,633)</u></u>	<u><u>(192,462)</u></u>

See accompanying notes to statutory financial statements.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Statutory Statements of Cash Flows

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operations:		
Premiums collected, net	\$ 500,095	378,860
Loss and adjustment expenses paid (net of salvage and subrogation)	(184,153)	(642,542)
Underwriting expenses paid	(188,108)	(158,372)
Investment income, net	724	4,537
Premiums receivable charged off	(10,772)	(3,257)
Other income	367	196
Net cash from operations	<u>118,153</u>	<u>(420,578)</u>
Cash flows from financing and other miscellaneous sources:		
Assessment received from members, net	185,450	239,510
Other, net	<u>(1,795)</u>	<u>(1,081)</u>
Net cash from financing and other miscellaneous sources	<u>183,655</u>	<u>238,429</u>
Net increase (decrease) in cash and short-term investments	301,808	(182,149)
Cash and short-term investments:		
Beginning of year	<u>128,711</u>	<u>310,860</u>
End of year	<u>\$ 430,519</u>	<u>128,711</u>

See accompanying notes to statutory financial statements.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

### (1) Summary of Significant Accounting Policies

The statutory financial statements of the West Virginia Essential Property Insurance Association (the Association) have been prepared on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the Insurance Department of the State of West Virginia.

Effective January 1, 2001, the Association's state of domicile adopted the NAIC Codification of Statutory Accounting Principles (Codification) as contained in the NAIC Accounting Practices and Procedures manual, version effective January 1, 2001. Accounting changes adopted to conform to Codification are reported as changes in accounting principles. Accounting for changes in accounting principles is reported as an adjustment to surplus, and prior year balances are not restated. The Association did not have an adjustment to surplus due to the adoption of Codification.

The more significant accounting policies are as follows:

#### (a) *Premiums*

Premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro-rata basis.

#### (b) *Commissions*

Commissions and other costs of acquiring business are charged to operations as incurred.

#### (c) *Nonadmitted Assets*

Certain assets designated as "nonadmitted" are not reflected in the statements of admitted assets, liabilities, and members' deficit. Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' deficit.

#### (d) *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 may be more or less than the amounts ultimately paid when claims are settled. Subsequent changes in estimates are reflected in earnings currently.

#### (e) *Use of Estimates*

The preparation of 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 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

December 31, 2002 and 2001

### **(f) *Variances from Generally Accepted Accounting Principles***

Certain of the prescribed or permitted insurance accounting practices followed by the Association differ from accounting principles generally accepted in the United States of America. The principal differences are as follows. Under accounting principles generally accepted in the United States of America:

- Commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.
- Certain assets designated as "nonadmitted" would be reflected in the statement of admitted assets, liabilities, and members' deficit.

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

### **(g) *Statements of Cash Flows***

For purposes of the statements of cash flows, short-term investments include investments with maturities at the time of acquisition of one year or less.

### **(h) *Reclassifications***

Certain 2001 balances have been reclassified to conform with the 2002 presentation.

## **(2) General**

The Association was created by an act of the Legislature of the State of West Virginia to make available basic property insurance against fire and other perils for residential and business properties located in the State. All insurers doing any insurance business in West Virginia of the kinds covered by the Association are required to be a member. Each member participates in the profits and losses of the Association in the proportion that the net direct premiums of the member insurer for the second previous year bear to the net direct premiums written by all members for the second preceding calendar year and is subject to future cash assessments, if required. Member deficits of \$35,633 and \$192,462 at December 31, 2002 and 2001, respectively, will ultimately be assessed to the members.

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 individual 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 Benefits

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

Connection Group Plan, which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the *Internal Revenue Code* and is exempt from federal income taxes. The pension plan is funded through the trustee by contributions to group annuity contracts with two insurance companies.

The following table sets forth the year-end status of the plan as it relates to the Association:

	<u>2002</u>	<u>2001</u>
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 103,664	94,470
Service cost	3,430	3,032
Interest cost	7,489	6,964
Actuarial loss	6,652	2,363
Benefits paid	<u>(3,224)</u>	<u>(3,165)</u>
Benefit obligation at December 31	<u>\$ 118,011</u>	<u>103,664</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 90,748	95,458
Actual return on plan assets	(9,042)	(1,545)
Benefits paid	<u>(3,224)</u>	<u>(3,165)</u>
Fair value of plan assets at December 31	<u>\$ 78,482</u>	<u>90,748</u>
Funded status	\$ (39,530)	(12,916)
Unrecognized net actuarial gain	<u>35,757</u>	<u>12,354</u>
	<u>\$ (3,773)</u>	<u>(562)</u>

An additional minimum pension liability is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. During 2002, an additional minimum pension liability of \$17,272 was recorded in underwriting and other expenses in the accompanying statement of operations.

The benefit obligation excludes liabilities for nonvested employees, which were \$52 and \$279 at December 31, 2002 and 2001, respectively.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

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

	<u>2002</u>	<u>2001</u>
Components of net periodic pension cost:		
Service cost	\$ 3,430	3,032
Interest cost	7,489	6,964
Expected return on plan assets	(8,022)	(8,446)
Amortization of transition asset and other	314	(988)
Net periodic pension cost	<u>\$ 3,211</u>	<u>562</u>
Weighted average assumptions:		
Discount rate	6.75%	7.50%
Expected long-term rate of return	9.00	9.00
Weighted average rate of compensation increase	3.50	4.75

The employees of the Association are eligible to participate in the Benefits Connection Group 401(k) Savings Plan, a defined contribution plan. The plan is administered by The Administration Committee for the Benefits Connection Group 401(k) Savings Plan. Participation in the plan is voluntary. Employees must complete five years of service with the Association to be vested in employer contributions. Employees may contribute 1% to 6% of their annual compensation on a before-tax basis and/or 1% to 10% of their annual compensation on an after-tax basis. The Association matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Association amounted to \$2,117 and \$1,922 in 2002 and 2001, respectively.

The Association provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employees' basic annual salary. For employees who are under age 65 at retirement, the Association continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Association pays the full cost of life insurance with coverage limited to \$5,000.

Retired employees of the Association are provided Medicare Supplement coverage. The Supplement provides coverage for certain hospital, surgical, and medical costs not covered by Medicare. To be eligible for the Supplement, a retiree must be 65 years of age or older and have at least five years of service with the Association.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	\$ 21,047	16,954
Plan assets at fair value	<u>—</u>	<u>—</u>
Accumulated postretirement benefit obligation in excess of plan assets	21,047	16,954
Unrecognized loss	(5,851)	(4,259)
Unrecognized prior service	<u>4,522</u>	<u>5,172</u>
Accrued postretirement benefit cost	<u>\$ 19,718</u>	<u>17,867</u>

Net periodic postretirement benefit cost for 2002 and 2001 includes the following components:

	<u>2002</u>	<u>2001</u>
Service cost	\$ 3,017	1,040
Interest cost	999	1,129
Amortization of loss	49	210
Amortization of prior service cost	<u>(554)</u>	<u>(567)</u>
Net periodic postretirement benefit cost	<u>\$ 3,511</u>	<u>1,812</u>

For measurement purposes, for participants younger than age 65, health care cost trend increases of 12% and 9% were assumed for 2002 and 2001, respectively. These rate increases were assumed to decrease through 2009 and later when they level off at 5%. The health care cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2002 by \$2,313 and the interest cost and service cost component of net periodic postretirement benefit cost for the year ended December 31, 2002 by \$84 and \$547, respectively. The weighted average discount rate used was 6.75% and 7.25% for 2002 and 2001, respectively.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

### (5) Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	2002	2001
Balance, January 1	\$ 85,032	150,083
Incurred related to:		
Current year	220,438	475,763
Prior years	12,515	52,744
Total incurred	232,953	528,507
Paid related to:		
Current year	116,725	390,731
Prior years	97,726	202,827
Total paid	214,451	593,558
Balance, December 31	\$ 103,534	85,032

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses increased by \$12,515 and \$52,744 in 2002 and 2001, respectively.

### (6) Lease Commitments

The Association conducts its operations in a leased premise under a lease that will expire April 30, 2008. At December 31, 2002, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:	
2003	\$ 4,892
2004	5,104
2005	5,175
2006	5,388
2007	5,388
2008	1,347
Total payments	\$ 27,294

Total rental expense was \$4,935 and \$10,278 in 2002 and 2001, 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.

# WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

## Notes to Statutory Financial Statements

December 31, 2002 and 2001

### (7) Related-Party Transactions

The Insurance Placement Facility of Pennsylvania (note 2) issues all checks, including those payable by the Association, and is then reimbursed by the Association. Throughout 2002 and 2001, \$214,451 and \$593,558, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Association. The related payable to the Insurance Placement Facility of Pennsylvania is \$31,013 and \$2,721 at December 31, 2002 and 2001, respectively.

### (8) Annual Statement Reconciliation

The following is a reconciliation between the accompanying statutory financial statements and the annual statement for the year ended December 31, 2002:

	<u>Net loss</u>	<u>Members' deficit</u>
As reported in the annual statement	\$ (31,403)	(17,878)
Underwriting and other expenses	(17,755)	(17,755)
Losses incurred	<u>21,000</u>	<u>—</u>
As reported herein	<u><u>\$ (28,158)</u></u>	<u><u>(35,633)</u></u>

The above adjustment to underwriting and other expenses was required to reflect the additional minimum pension liability discussed in note 4. The adjustment to losses incurred relates to the reversal of a prior year item.



STATE OF WEST VIRGINIA


Offices of the Insurance Commissioner

BOB WISE  
Governor

JANE L. CLINE  
Insurance Commissioner

MEMORANDUM

TO: Thomas M. Giffen – Acordia of West Virginia  
William Lingenfelter – State Farm Insurance Companies  
David A. McMillen – Westfield Companies  
David V. Freeman – Erie Insurance Group  
Gary R. Auvil – Farmers' Mutual Insurance Company  
Michele Lilly – Nationwide Insurance Company  
Jeffrey Williams, Esq., - Allstate Insurance Company

FROM:   
Jane L. Cline  
Insurance Commissioner

DATE: March 18, 2003

RE: **Board of Directors – 2003-2004**  
**West Virginia Essential Property Insurance Association**  
**FAIR PLAN**

I hereby appoint the above Board of Directors of the West Virginia Essential Property Insurance Association for 2003-2004.

I look forward to our efforts in maintaining an effective FAIR Plan.

JLC/plr

cc: John M. Ogle  
General Manager