



REPORT OF THE ANNUAL MEETING

April 15, 2004

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors
2003-2004 Term

Mr. William Lingenfelter, Chairman	State Farm Insurance Companies
Mr. David A. McMillen, Vice Chairman.	Westfield Companies
Mr. Gary Auvil	Farmers Mutual Insurance Company
Mr. David V. Freeman	Erie Insurance Group
Mr. Thomas M. Giffen	Acordia of West Virginia
Ms. Michele Lilly	Nationwide Insurance Company
Mr. Jeffrey Williams, Esq.	Allstate Insurance Company
Mr. Samuel P. Gerace, Esq. General Counsel	Jones, Gregg, Creehan & Gerace, LLP
Mr. John M. Ogle, General Manager	West Virginia Essential Property Insurance Association

AGENDA
ANNUAL MEETING
OF THE
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
APRIL 15, 2004
8:00 A. M.
EMBASSY SUITES - CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:00 A.M. - William Lingenfelter, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 29, 2003
3. Ratification of Board Action
4. Report of Chairman
5. Report of General Manager
6. Treasurer's Report
7. Appointment of Board of Directors 2004 - 2005
(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 15, 2004
Embassy Suites Hotel
Charleston, West Virginia
8:00 a.m.

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 15, 2004 at the Embassy Suites Hotel in Charleston, West Virginia. The annual meeting was called to order at 8:00 a.m. with Chairman William Lingenfelter presiding and Mr. John M. Ogle acting as secretary.

Upon motion duly made, seconded and carried, the Minutes of the April 29, 2003 Annual Meeting were approved as distributed to Member Companies.

A motion to ratify the actions of the Board of Directors for the 2003-2004 term was duly made, seconded and carried.

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

By notice from the West Virginia Insurance Commission, 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 2004-2005 term.

Mr. Gary R. Auvil
Farmers Mutual Insurance Company

Mr. Thomas M. Giffen
Acordia of West Virginia

Mr. David V. Freeman
Erie Insurance Group

Ms. Michele Lilly
Nationwide Insurance Company

Mr. William Lingenfelter
State Farm Insurance Companies

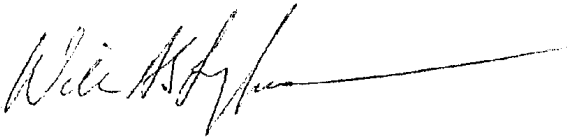
Mr. David A. McMillen
Westfield Companies

Mr. Jeffrey Williams, Esq.
Allstate Insurance Company

General Manager Ogle noted that the 2003 Year End Financial Audit Report was not yet completed but would be provided to the Board of Directors as soon as possible. The audit will also be made part of the Annual Report submitted to Member Companies.

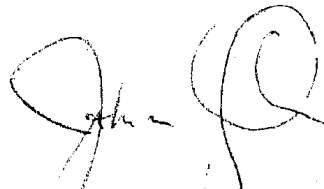
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. William Lingenfelter
Chairman of the Board

Respectfully submitted by,



Mr. John M. Ogle, CPCU
General Manager

Chairman's Report
Chairman William Lingenfelter
West Virginia Essential Property Insurance Association
Annual Meeting of
the Board of Directors
April 15, 2004
Charleston, West Virginia - Embassy Suites Hotel
8:00 a.m.

Good Morning. Welcome to the 18th Annual Meeting of the West Virginia Essential Property Insurance Association.

As I look back over this past year, I cannot help but be reminded of the previous 18 years. Since our inception, the Association has issued 24,703 policies while collecting just over \$8.4 million in Written Premium and incurring slightly over \$7.2 million in losses. Although the Association has historically been a small, geographically concentrated organization, it has provided quality service to all areas of the state throughout its 18 year history. In addition, the West Virginia Essential Property Insurance Association has maintained a diligent stand against arson and fraud and continues to be the sole financial support for the West Virginia Arson Hotline Program.

Although the General Manager's Report will review the 2003 statistics, I would like to share with you our year-end financial results. In 2003, the Association recorded an Underwriting surplus of \$38,365. Taking into account Investment Income and Other Income and Expenses, the Net Result of Operations for 2003 was a surplus of \$36,724. New Business Received grew by just over 48% and Total Policies Issued increased by 23.6%. Although the Association remains small, the increased activity brings to light the important role the Association plays in the West Virginia marketplace. As local markets ebb and flow, the West Virginia Essential Property Insurance Association maintains its presence ready to meet the needs of the property owners.

As mentioned, the Association provides the sole financial support to the West Virginia Arson Hotline Program. This year the dedicated and hardworking staff of the Fire Marshall's Office combined with the emergence of this well publicized Hotline produced several arson convictions and resulted in several thousand dollars of reward money. On behalf of the Board, our thanks

goes out to the State Fire Marshall's Office investigators, to the Hotline Committee Members and in particular, Committee Chairman Michael Phelps.

The Association continues to operate with the vital assistance of the Insurance Placement Facility of Pennsylvania. Through this arrangement, wherein expenses and expertise are shared, the West Virginia Essential Property Insurance Association is able to maintain its small, but vital role in the West Virginia insurance industry. Special thanks are extended to General Manager John Ogle and his fine staff for their dedication to the West Virginia Essential Property Insurance Association.

Throughout the year, the organization experienced numerous changes to the Board and governing committees. To those individuals who have left us but given so freely of their time and expertise, I would like to express my gratitude for their efforts. It is clear the insurance industry is made up of many talented and professional individuals and this organization is fortunate to have many of those same people serving on our Board and Governing Committees.

In closing, I would like to express my thanks to General Counsel, Mr. Samuel Gerace and his staff for their timely and thorough legal advice. I would also like to recognize and thank the West Virginia State Insurance Department for their active participation and involvement. Lastly, I would like to take this opportunity to thank each of my fellow Board Members for their individual contributions to this organization. Your support has been gratifying and I am confident that the West Virginia Essential Property Association remains in capable hands.

Respectively submitted,

A handwritten signature in cursive script that reads "William Lingenfelter".

William Lingenfelter
Chairman

General Manager's Report
John M. Ogle
West Virginia Essential Property Insurance Association
Annual Meeting
April 15, 2004
Embassy Suites Hotel
Charleston, West Virginia
8:000 a.m.

Good Morning. I am pleased to be here with you this morning and to have this opportunity to share with you the highlights and results of this past year. In 2003, the West Virginia Essential Property Insurance Association issued 1,427 policies, an increase of 23.6% from 2002. The increase in Policies Issued is part of an ongoing trend established in 2001. New Applications Received increased 48.3% while Renewal Policies Issued increased 9% to 809 policies. The increase in business increased Premiums Written by 46.6% to \$729,629 and Premiums Earned by 39% to \$602,050. The Average Habitational Policy in 2003 costs \$513, an increase of nearly 19%.

On the claims side, in 2003, the Association experienced a 42.9% decrease in Losses Reported from 35 to 20. The Association posted a Total Loss Incurred of \$275,294. The Average Paid Loss increased 129% to \$18,370 and for the year, the Pure Loss Ratio held nearly steady at 45.7%. The West Virginia Essential Property Insurance Association recorded no claim litigation activity during the year and unlike our very early years of operation, the Association currently has no outstanding files in litigation.

All in all, the Plan recorded a 2003 underwriting surplus of \$38,368 and a Net Result of Operations surplus of \$36,724.

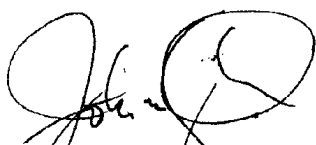
2003 is best categorized as a year of growth and uncertainty. Like all insurance companies, the West Virginia FAIR Plan dealt with the changing Federal Terrorism legislative requirements and the revised methodology to account for retiree pension and health benefits. The Plan continued to review and study the uncertainties brought upon by the federal legislation known as Sarbanes-Oxley. More specific to the core of the business of the West Virginia Essential Property Insurance Association, the increase in new business challenges staff's abilities to operate within predetermined standards while at the same time, the uncertainties as to whether the growth will continue makes planning inexact and more difficult.

As we approach our 19th year of operation, the Association remains in a specter of uncertainty. As the insurance marketplace again adjusts itself to the changing conditions of the marketplace, the impact on the West Virginia Essential Property Insurance Association is unknown. Although the future remains cloudy, the Association is prepared to meet the challenges that lie ahead. The West Virginia Essential Property Insurance Association Plan remains committed to operating a professional and efficient association to service the property insurance industry as well as the insurance buying public.

In closing, I would like to thank General Counsel Gerace and his staff for their tireless efforts and attention to detail in assisting the Plan throughout the year. I would also like to thank the West Virginia Insurance Department for their input and guidance throughout 2003.

The West Virginia Essential Property Insurance Association is fortunate to have the contribution of many talented Board and Committee Members. I would like to extend my gratitude to each individual for contributing their expertise, advice and most of all, their support. Lastly, I would like to thank the individual employees, management and staff alike, for their dedication and commitment to the association. It is because of their fine efforts that we can look back on a successful year and look forward to the challenges of the future.

Respectively,



John M. Ogle, CPCU
General Manager

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

WEST VIRGINIA FAIR PLAN

Treasurer's Report

December 31, 2003

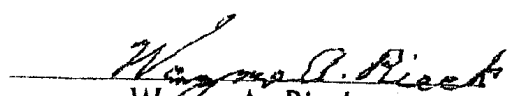
ASSETS

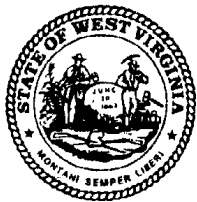
Cash in Bank	629,543.91
Investments, Short term at cost plus accumulated discount	65,166.49
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	5,284.40
Other Receivables	0.00
Prepaid Premium Tax	0.00
Equipment	0.00
Total Assets	<u>699,994.80</u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	399,000.00
Unearned Advance Premiums	5,313.00
Outstanding Losses	46,500.00
Outstanding Loss Adjustment Expenses	4,518.00
Accrued Expenses	12,207.00
Unpaid Post Retirement Benefits	50,164.00
Accounts Payable	(3,165.55)
Claims Checks Payable	156,045.98
Unpaid Premium Tax	11,321.58
Total Liabilities	<u>681,904.01</u>
Members' Equity (Deficit)	<u>18,090.79</u>
Total Liabilities and Members' Equity	<u>699,994.80</u>

Respectfully Submitted,


Wayne A. Rieck
Accounting Manager



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 *Jane L. Cline*
Insurance Commissioner

DATE: March 12, 2004

RE: **Board of Directors - 2004-05**
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 2004-05.

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

JLC/csp

cc: John M. Ogle, CPCU
General Manager



KPMG LLP
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' equity (deficit) of West Virginia Essential Property Insurance Association (the Association) as of December 31, 2003 and 2002, and the related statutory statements of operations and members' equity (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. Such an amount, however, is 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, 2003 and 2002, 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' equity (deficit) of West Virginia Essential Property Insurance Association as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in note 1.



Our audits were made for the purpose of forming an opinion on the 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

March 25, 2004

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Statutory Statements of Admitted Assets, Liabilities, and Members' Equity (Deficit)

December 31, 2003 and 2002

Admitted Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 629,544	365,617
Short-term investments, at amortized cost which approximates market value	65,167	64,902
Premiums receivable	<u>5,284</u>	<u>4,064</u>
Total admitted assets	\$ <u>699,995</u>	<u>434,583</u>
Liabilities and Members' Equity (Deficit)		
Liabilities:		
Unearned premiums	\$ 399,000	271,421
Due to related parties	156,046	31,013
Unpaid losses and loss adjustment expenses	51,018	103,534
Unearned advanced premiums	5,313	3,629
Postretirement benefits payable	25,359	19,718
Pension liability	22,261	21,045
Other liabilities	<u>20,363</u>	<u>19,856</u>
Total liabilities	679,360	470,216
Members' equity (deficit)	<u>20,635</u>	<u>(35,633)</u>
Total liabilities and members' equity (deficit)	\$ <u>699,995</u>	<u>434,583</u>

See accompanying notes to statutory financial statements.

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Statutory Statements of Operations and Members' Equity (Deficit)

Years ended December 31, 2003 and 2002

	2003	2002
Underwriting:		
Premiums earned	\$ 602,050	432,857
Less:		
Losses incurred	275,294	171,801
Loss adjustment expenses incurred	21,810	61,152
Underwriting and other expenses incurred	246,278	218,381
	543,382	451,334
Net underwriting gain (loss)	58,668	(18,477)
Net investment income	265	724
Other (expense) income:		
Premiums/assessments receivable charged off	(1,526)	(10,772)
Other	(384)	367
Other expense, net	(1,910)	(10,405)
Net income (loss)	57,023	(28,158)
Members' deficit, beginning of year	(35,633)	(192,462)
Change in nonadmitted assets	(755)	(463)
Member contributions	—	185,450
Members' equity (deficit), end of year	\$ 20,635	(35,633)

See accompanying notes to statutory financial statements.

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Statutory Statements of Cash Flows
Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operations:		
Premiums collected, net	\$ 729,337	500,095
Loss and adjustment expenses paid (net of salvage and subrogation)	(224,587)	(184,153)
Underwriting expenses paid	(234,763)	(188,108)
Investment income, net	265	724
Premiums/assessments receivable charged off	(1,526)	(10,772)
Other income	(384)	367
Net cash from operations	268,342	118,153
Cash flows from financing and other miscellaneous sources:		
Contributions received from members, net	—	185,450
Other, net	(4,150)	(1,795)
Net cash (used by) from financing and other miscellaneous sources	(4,150)	183,655
Net increase in cash and short-term investments	264,192	301,808
Cash and short-term investments:		
Beginning of year	430,519	128,711
End of year	\$ 694,711	430,519

See accompanying notes to statutory financial statements.

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Notes to Statutory Financial Statements

December 31, 2003 and 2002

(1) Summary of Significant Accounting Policies

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

The more significant accounting policies are as follows:

(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' equity (deficit). Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' equity (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 could differ from 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, 2003 and 2002

(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' equity (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.

(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. Members' equity (deficit) of \$35,633 at December 31, 2002 will ultimately be assessed to the participating members as required.

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

(3) Federal Income Taxes

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

(4) Employee Benefits

The Association, in conjunction with the Insurance Placement Facility of Pennsylvania and the Insurance Placement Facility of Delaware and other unaffiliated organizations, is a participant in the Benefits Connection Group Plan, which covers all of its employees. The pension plan qualifies under the provisions

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Notes to Statutory Financial Statements

December 31, 2003 and 2002

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>2003</u>	<u>2002</u>
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 118,011	103,664
Service cost	3,743	3,430
Interest cost	8,422	7,489
Actuarial loss	14,818	6,652
Benefits paid	<u>(3,468)</u>	<u>(3,224)</u>
Benefit obligation at December 31	<u>\$ 141,526</u>	<u>118,011</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 78,482	90,748
Actual return on plan assets	21,536	(9,042)
Employer contributions	885	—
Benefits paid	<u>(3,468)</u>	<u>(3,224)</u>
Fair value of plan assets at December 31	<u>\$ 97,435</u>	<u>78,482</u>
Funded status	\$ (44,091)	(39,530)
Unrecognized net actuarial loss	<u>32,587</u>	<u>35,757</u>
	<u>\$ (11,504)</u>	<u>(3,773)</u>

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

	<u>2003</u>	<u>2002</u>
Components of net periodic pension cost:		
Service cost	\$ 3,743	3,430
Interest cost	8,422	7,489
Expected return on plan assets	(6,710)	(8,022)
Amortization of transition asset and other	<u>6,049</u>	<u>314</u>
Net periodic pension cost	<u>\$ 11,504</u>	<u>3,211</u>
Weighted average assumptions:		
Discount rate	6.25%	6.75%
Expected long-term rate of return	8.50%	9.00%
Weighted average rate of compensation increase	3.50%	3.50%

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. As of December 31, 2003 and change in the additional minimum pension liability was recorded in underwriting and other expenses in the accompanying statement of operations for both years.

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Notes to Statutory Financial Statements

December 31, 2003 and 2002

The benefit obligation excludes liabilities for nonvested employees, which were \$199 and \$52 at December 31, 2003 and 2002, respectively.

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 are vested in employer contributions upon participation. Employees may contribute 1% to 16% of their annual compensation on a before-tax basis and/or 1% to 16% of their annual compensation on an after-tax basis for a total of 16%. The Association matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Association amounted to \$2,311 and \$2,117 in 2003 and 2002, 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.

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	\$ 27,764	21,047
Plan assets at fair value	—	—
Accumulated postretirement benefit obligation in excess of plan assets	27,764	21,047
Unrecognized loss	(6,472)	(5,851)
Unrecognized prior service	4,067	4,522
Accrued postretirement benefit cost	<u>\$ 25,359</u>	<u>19,718</u>

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Notes to Statutory Financial Statements

December 31, 2003 and 2002

Net periodic postretirement benefit cost for 2003 and 2002 includes the following components:

	2003	2002
Service cost	\$ 5,295	3,017
Interest cost	186	999
Amortization of loss	1,359	49
Amortization of prior service cost	(568)	(554)
Net periodic postretirement benefit cost	\$ 6,272	3,511

For measurement purposes, for participants younger than age 65, health care cost trend increases of 11% and 12% were assumed for 2003 and 2002, 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, 2003 by \$3,506 and net periodic postretirement benefit cost for the year ended December 31, 2003 by \$1,106. The weighted average discount rate used was 6.25% and 6.75% for 2003 and 2002, 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:

	2003	2002
Balance, January 1	\$ 103,534	85,032
Incurred related to:		
Current year	317,267	220,438
Prior years	(20,163)	12,515
Total incurred	297,104	232,953
Paid related to:		
Current year	266,249	116,725
Prior years	83,371	97,726
Total paid	349,620	214,451
Balance, December 31	\$ 51,018	103,534

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses decreased by \$20,163 and increased by \$12,515 in 2003 and 2002, respectively.

**WEST VIRGINIA ESSENTIAL PROPERTY
INSURANCE ASSOCIATION**

Notes to Statutory Financial Statements

December 31, 2003 and 2002

(6) Lease Commitments

The Association conducts its operations in a leased premise under a lease that will expire April 30, 2008. At December 31, 2003, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:		
2004	\$	5,232
2005		5,280
2006		5,523
2007		5,523
2008		1,841
Total payments	\$	<u>23,399</u>

Total rental expense was \$5,986 and \$4,935 in 2003 and 2002, 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 (note 2) issues all checks, including those payable by the Association, and is then reimbursed by the Association. Throughout 2003 and 2002, \$349,620 and \$214,451, 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 \$156,046 and \$31,013 at December 31, 2003 and 2002, 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, 2003:

	Net income	Members' equity
As reported in the annual statement	\$ 36,724	\$ 18,091
2002 underwriting and other expense adjustment	17,755	—
2003 underwriting and other expense adjustment	2,544	2,544
As reported herein	\$ <u>57,023</u>	\$ <u>20,635</u>

The underwriting and other expense adjustments relate to the additional minimum pension liability adjustments discussed in note 4.