



REPORT OF THE ANNUAL MEETING

April 23, 2019

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

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

Board of Directors

2018-2019

Mr. David V. Freeman, Chairman	Erie Insurance Group
Mr. Noel Patterson, Vice Chairman	Allstate Insurance Companies
Mr. Tim Dyer	Dyer Insurance Group
Ms. Sabrina Wang	Nationwide Insurance
Mr. Bob Messier	State Farm 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, PA
Mr. John M. Ogle, President/Secretary	West Virginia Essential Property Insurance Association

AGENDA
ANNUAL MEETING
OF THE
WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION
APRIL 23, 2019
8:00 A.M.
WEST VIRGINIA INSURANCE COMMISSIONER OFFICE
CHARLESTON, WEST VIRGINIA

1. Call to Order - 8:00 A.M. - David V. Freeman, Chairman, presiding
2. Approval of Minutes of Annual Meeting - April 27, 2018
3. Ratification of Board and Officer's Actions
4. Report of Chairman
5. Report of President
6. Treasurer's Report
7. Appointment of Board of Directors 2019 - 2020
(Appointment by Insurance Commissioner)
8. New Business
9. Adjournment

Minutes of the Annual Meeting
of the Board of Directors
of the West Virginia Essential Property Insurance Association
April 23, 2019
8:00 a.m.
West Virginia Offices of the Insurance Commissioner
900 Pennsylvania Ave. Charleston, West Virginia

The West Virginia Essential Property Insurance Association Annual Meeting was held on April 23, 2019 at the West Virginia Offices of the Insurance Commissioner located at 900 Pennsylvania Ave in Charleston, West Virginia 25302. The Annual Meeting was called to order at 8:00 a.m. with Chairman Mr. David V. Freeman presiding and President Mr. John M. Ogle acting as secretary for the meeting.

Upon motion duly made, seconded and carried, the Minutes of the April 27, 2018 Annual Meeting were approved as distributed to member companies.

A motion to ratify the actions of the Board of Directors and the Association's Officers for 2018-2019 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 James A. Dodrill, the following individuals were appointed to the Board of Directors of the West Virginia Essential Property Insurance Association for the 2019 - 2020 term.

Mr. David V. Freeman
Erie Insurance Group

Mr. Tim Dyer
Dyer Insurance Group

Mr. Bob Messier
State Farm Insurance Companies

Mr. Noel Patterson
Allstate Insurance Company

Report of the Chairman

Mr. David V. Freeman

33rd Annual Meeting

West Virginia Essential Property Insurance Association

April 23, 2019

Welcome to the 33rd Annual Meeting of the West Virginia Essential Property Insurance Association (WVEPIA). As we move past three decades of operation, I am pleased to report 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 West Virginia's sizable rural nature, there remains a large number of companies doing business in the State. With many companies active in the marketplace, it is not a surprise that the State's residual property insurance market remained a very small fish in much larger pond. In 2018, the West Virginia Essential Property Insurance Association issued just 434 policies, a decline of just over 7%, and earned just \$281,437 in premium.

The lower volumes mean the Association is more susceptible to large fire losses, let alone a series of fire losses. In 2018, the West Virginia Essential Property Insurance Association suffered three such losses which resulted in \$201,000 in claim payments and year end Underwriting Loss of \$219,572.

Since inception, much of the Association's business has come from the southwest corner of the state and nothing in 2018 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 Association for many years and some of it will be with the Association for only a very short time. Regardless of where it is located or why it comes to the Association, the Association remains ready and able to meet the needs of insurance buying public.

As we have done for many years, in 2018 the West Virginia Essential Property Insurance Association 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 2018 represented the 23rd 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.

Report of the President
Mr. John M. Ogle

33rd Annual Meeting
West Virginia Essential Property Insurance Association
April 23, 2019

Good Morning and welcome to the 33rd Annual Meeting of the West Virginia Essential Property Insurance Association.

Since inception, the Plan has been a small niche writer and nothing in 2018 changed that dynamic. As such, our very small premium base has always made the Association susceptible to the large fire loss and in 2018, that susceptibility was evident. The Plan suffered several large fire losses resulting \$245,490.07 in Loss Incurred and \$79,791.59 in Loss Adjustment Expense Incurred. As such, despite a 10.3% decline in General Expenses, the Association recorded an Underwriting Loss of \$219,572.36. Considering Investment Income and Other Income and Expenses, the West Virginia Essential Property Insurance Association recorded a 2018 Net Result of Operations Loss of \$220,527.76.

West Virginia does not face the annual prospect of a hurricane, nor does it have the same concerns about large scale destructive wildfires. With an improved business and regulatory climate many companies remain active in the West Virginia marketplace. As such, the West Virginia Essential Property Insurance Association continued to be a very small player in the marketplace. Overall, the Plan issued almost 7.5% fewer policies in 2018 than it did in 2017. The FAIR Plan received just one more New Application in 2018 than it did in 2017 and it saw its habitational business fall by almost 9.3%.

In 2018, as seems to happen every year, the Association saw some change to its Board as well as the FAIR Plan staff itself. Although the loss of knowledge and expertise is difficult, it is merely a reflection of the retirement of the baby boomer generation and the many talented and dedicated employed by the insurance industry.

In closing, I would like to thank the members of my management team and the employees for their efforts over these past 12 months. We depend on many of our people to wear many different hats and their dedication to our ongoing software project was indeed an example of a new and different hat. Much of what is accomplished by the Plan is done so because of the efforts of many individuals working for the betterment of all.

WEST VIRGINIA ESSENTIAL PROPERTY INSURANCE ASSOCIATION

WEST VIRGINIA FAIR PLAN

Treasurer's Report

December 31, 2018

ASSETS

Cash in Bank	339,372.07
Investments, Short term at cost plus accumulated discount	324,445.06
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	5,035.73
Other Receivables	0.00
Equipment *	0.00
 Total Assets	 <u><u>668,852.86</u></u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	134,809.00
Unearned Advance Premiums	14,872.94
Outstanding Losses	41,600.00
Outstanding Loss Adjustment Expenses	11,544.00
Accrued Expenses	7,361.00
Unpaid Post Retirement Benefits	87,069.00
Unpaid Pension	44,854.00
Accounts Payable	1,083.02
Claims Checks Payable	22,430.26
Unpaid Premium Tax	4,017.02
 Total Liabilities	 <u>369,640.24</u>
Members' Equity (Deficit)	299,212.62
 Total Liabilities and Members' Equity	 <u><u>668,852.86</u></u>

Respectfully Submitted,



RoseMarie McDonald
Accounting Manager

* E. D. P. Equipment



STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner

James A. Dodrill
Insurance Commissioner

March 6, 2019

John M. Ogle, General Manager
West Virginia Essential Property Insurance Association
190 N. Independence Mall West, Suite 301
Philadelphia, PA 19106-1554

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. Noel Patterson, Representing Allstate Insurance Company
- Mr. Tim Dyer, Representing Dyer Insurance Group
- Ms. Sabrina Wang, Representing Nationwide Insurance Company
- Mr. Robert Messier, Representing State Farm Insurance Companies
- Mr. Nicholas Piekarski, Representing Westfield Companies
- Mr. Foster L. Sirbaugh, Jr., Representing Farmers and Mechanics

We appreciate their interest to participate on the Board and look forward to its continued success.

Sincerely,

A handwritten signature in blue ink, appearing to read "James A. Dodrill".

James A. Dodrill
Insurance Commissioner



**West Virginia Essential
Property Insurance
Association**

**Statutory Financial Statements
and Supplemental Schedules
December 31, 2018 and 2017**



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, 2018 and 2017, 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, 2018 and 2017, 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.

MAZARS USA LLP
501 OFFICE CENTER DRIVE, SUITE 300 – FORT WASHINGTON, PENNSYLVANIA – 19034
TEL: 215.259.1000 – FAX: 215.259.1010 – WWW.MAZARSUSA.COM

MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.



West Virginia Essential Property Insurance Association

Statutory Statements of Admitted Assets, Liabilities and Members' Equity *December 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
Admitted Assets		
Cash and cash equivalents	\$ 663,817	\$ 804,940
Premiums receivable	<u>5,036</u>	<u>3,367</u>
Total admitted assets	<u>\$ 668,853</u>	<u>\$ 808,307</u>
Liabilities and Members' Equity		
Liabilities		
Unearned premiums	\$ 134,809	\$ 142,854
Unpaid losses and loss adjustment expenses	53,144	2,367
Due to related parties	22,430	-
Advance premiums	14,873	15,864
Postretirement benefits payable	87,069	103,996
Pension liability	44,854	42,166
Other liabilities	<u>12,461</u>	<u>7,264</u>
Total liabilities	369,640	314,511
Members' equity	<u>299,213</u>	<u>493,796</u>
Total liabilities and members' equity	<u>\$ 668,853</u>	<u>\$ 808,307</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, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
Cash from operations		
Premiums collected, net	\$ 274,590	\$ 291,397
Benefit and loss related payments	(205,490)	(58,311)
Commissions, expenses paid and aggregate write-in for deductions	(242,623)	(230,108)
Interest income	1,677	1,507
Other expense	<u>(2,633)</u>	<u>(664)</u>
Net cash from operations	<u>(174,478)</u>	<u>3,821</u>
Cash from financing and miscellaneous sources		
Other cash provided (applied)	<u>33,355</u>	<u>(16,034)</u>
Net decrease in cash and cash equivalents	(141,123)	(12,213)
Cash and cash equivalents, beginning of year	<u>804,940</u>	<u>817,153</u>
Cash and cash equivalents, end of year	<u>\$ 663,817</u>	<u>\$ 804,940</u>

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

West Virginia Essential Property Insurance Association

Variations from Generally Accepted Accounting Principles

Certain of the prescribed or permitted insurance accounting practices followed by the Association differ from GAAP. The principal differences are as follows:

- Under GAAP, commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.
- Under GAAP, certain assets designated as “non-admitted” would be reflected in the statutory statement of admitted assets, liabilities, and members’ deficit.

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 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 Principle Financial Group Pension Plan for Insurance Organizations (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 retire at age 65 or older, the Association pays the full cost of life insurance with coverage limited to \$10,000.

Eligible employees that elect to retire at, or after, normal retirement age may elect to receive Medicare supplemental benefits of their choosing using an employer level funded HRA.

West Virginia Essential Property Insurance Association

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$ 234,939	\$ 203,552	\$ 51,841	\$ 27,826
Interest cost	654,329	688,221	119,629	145,107
Expected return on plan assets	(956,008)	(840,827)	-	-
Amount of prior service cost recognized	2,265	2,265	30,176	8,166
Amount of prior non-vested liability recognized	-	-	25,335	32,071
Amount of loss recognized	186,465	341,639	54,039	113,629
Net periodic benefit cost	<u>\$ 121,990</u>	<u>\$ 394,850</u>	<u>\$ 281,020</u>	<u>\$ 326,799</u>

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rate	3.50%	3.90%	3.60%	4.05%
Weighted average rate of compensation increase	3.00%	3.00%	N/A	N/A
Expected long-term rate of return	5.50%	5.50%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rate	4.15%	3.50%	4.15%	3.60%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The accumulated benefit obligation for the pension plan was \$16,718,883 and \$17,795,722 at December 31, 2018 and 2017, respectively.

Prepaid pension benefit cost was \$1,779,557 and \$1,385,799 at December 31, 2018 and 2017, 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.

West Virginia Essential Property Insurance Association

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.

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, 2018 and 2017. The Association, Insurance Placement Facility of Pennsylvania, and Insurance Placement Facility of Delaware have a total interest in plan assets of approximately 1.60% and 1.51% as of December 31, 2018 and 2017, respectively.

West Virginia Essential Property Insurance Association

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 \$3,243 and \$3,068 in 2018 and 2017, respectively.

5. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 2,367	\$ 19,835
Incurred related to:		
Current year	317,892	85,199
Prior years	<u>7,389</u>	<u>(16,398)</u>
Total incurred	<u>325,281</u>	<u>68,801</u>
Paid related to:		
Current year	264,748	82,832
Prior years	<u>9,756</u>	<u>3,437</u>
Total paid	<u>274,504</u>	<u>86,269</u>
Balance, December 31	<u>\$ 53,144</u>	<u>\$ 2,367</u>

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses increased by \$7,389 and decreased by \$16,398 in 2018 and 2017, respectively. The unfavorable (favorable) loss reserve development during 2018 and 2017 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.

West Virginia Essential Property Insurance Association

Supplemental Risk Interrogatories

December 31, 2018

Total admitted assets at December 31, 2018 \$ 668,853

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 \$ -	None \$ -

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

Reinsurance Interrogatories

December 31, 2018

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, 2018 and have issued our report thereon dated April 18, 2019. 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 State Board of Public Accountancy.
- b. The engagement partner is a certified public accountant and both the engagement partner and manager 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 ("Insurance Department") and other state insurance department in states in which the Association is licensed and that the insurance commissioners of those states 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 Insurance Department. 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.

MAZARS USA LLP

501 OFFICE CENTER DRIVE, SUITE 300 – FORT WASHINGTON, PENNSYLVANIA – 19034

TEL: 215.259.1000 – FAX: 215.259.1010 – WWW.MAZARSUSA.COM

MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.





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, 2018, 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, 2018. However, unremediated material weaknesses may exist that were not identified.

This communication is intended solely for the information and use of the audit committee, 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.

Mazars USA LLP

April 18, 2019

MAZARS USA LLP
501 OFFICE CENTER DRIVE, SUITE 300 – FORT WASHINGTON, PENNSYLVANIA – 19034
TEL: 215.259.1000 – FAX: 215.259.1010 – WWW.MAZARSUSA.COM

MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.

