INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

FAIR PLAN

REPORT OF THE ANNUAL MEETING

April 20, 2004

Insurance Placement Facility of Pennsylvania

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

Board of Directors

2003 - 2004

Mr. Karl M. Brondell, Chairman	State Farm Insurance Companies
Ms. Joanne K. Martyn, Vice Chairperson	Chubb Group of Insurance Companies
Ms. Susan A. Erney	The Harleysville Insurance Companies
Mr. John D. Fillippo	ACE USA
Ms. Wendy Lyles	Allstate Insurance Company
Mr. William W. Martin	The Hartford
Mr. Terry McConnell	Erie Insurance Group

Mr. Samuel P. Gerace, Esq.	Jones, Gregg, Creehan & Gerace, LLP
Mr. John M. Ogle, General Manager	Insurance Placement Facility of Pennsylvania

AGENDA FOR THE ANNUAL MEETING

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

April 20, 2004 - 1:30 P.M.

---

1. Call to Order - 1:30 P.M. - Mr. Karl M. Brondell, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 22, 2003
3. Ratification of Board Action
4. Report of the Chairman
5. Report of the General Manager
6. Treasurer's Report
7. Other Business
8. Election of Board of Directors 2004 - 2005

   Nominations are :

   1) ACE USA
   2) Allstate Insurance Company
   3) Chubb Group of Insurance Companies
   4) Erie Insurance Group
   5) State Farm Insurance Companies
   6) The Harleysville Insurance Companies
   7) The Hartford

9. Adjournment of Meeting

Insurance Placement Facility of Pennsylvania
Minutes of the Annual Meeting
April 20, 2004
Administrative Offices of the Facility
1:30 p.m.
530 Walnut Street, Suite 1650
Philadelphia, PA 19106

The Annual meeting of the Insurance Placement Facility of Pennsylvania was called to order with Chairman Karl M. Brondell presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present or by proxy. Mr. Ogle reported that the attendees represented 63.58% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 22, 2003 Annual Meeting were approved as distributed.

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

Motions were made, seconded and carried, to waive the reading of the Chairman's report, the General Manager's report and the Treasurer's report, as all three reports will be incorporated into the annual report submitted to Member Companies. The reports were accepted as presented.

The General Manager presented the Board with the 2003 Financial Audit report as provided by the accounting firm of KPMG Peat Marwick. The report was accepted by the Board and made part of the annual report submitted to Member Companies.

With no other new business, Nominating Committee Chairperson, Wendy Lyles, placed into nomination, the following Member Companies to serve on the Board of Directors for the 2004-2005 term.

ACE USA
Allstate Insurance Company
Chubb Group of Insurance Companies
Erie Insurance Group
State Farm Insurance Companies
The Harleysville Insurance Companies
The Hartford

There being no other nominations, it was moved, seconded and carried to close nominations. Chairman Brondell requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 58.87% of the membership indicated their intention to cast ballots in person or by proxy in favor of the nominees.

Therefore, upon motion duly made, seconded and carried, the slate was declared elected.

The next annual meeting was set for April 2005.

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

Approved by,

Mr. Karl M. Brondell
Chairman of the Board

Respectfully submitted by,

Mr. John M. Ogle
General Manager

Report of the Chairman
Mr. Karl M. Brondell
36th Annual Meeting of Members
of
The Insurance Placement Facility of Pennsylvania
April 20, 2004
1:30 p.m.

Good afternoon and welcome to the 36th Annual Meeting of the Members of the Insurance Placement Facility of Pennsylvania. 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 Pennsylvania laws and regulations.

It has been more than 35 years since the first FAIR Plan policy was written and the first claim paid. Over that time, much has changed in the world in which we do business. Our first policies were typed by a clerical staff, matched to the appropriate policy documents by a policy preparation staff and folded into envelopes by a mail room staff. In addition, the organization had separate job descriptions for rating, endorsements, cancellations, quality check, etc. Now, information is routinely imaged and faxed electronically. Much of the work is processed in just a few keystrokes and an interactive website and e-mail system have nearly replaced the routine handwritten letter.

As productivity increased, staff levels declined. To illustrate, staffing levels have declined nearly 80% since 1979. Currently there are 42 employees. Today's employee performs his or her duties with an unparalleled knowledge of the inner workings of the underwriting, claims or accounting process. Employees now routinely complete all functions handled by their respective departments and in addition, often lend themselves to other departments to assist in times of increased volume or limited staffing. During the many ups and downs of the marketplace, from typewriters to E-mail, these employees have continued to provide high quality service to the property owners, the agents, and the Pennsylvania insurance industry in general.

I believe it is important to note these efforts because it is through these employees that the Plan is able to meet its goals and objectives. I am pleased to report that for many years now, the Pennsylvania FAIR Plan has produced high quality service while maintaining one of the lowest cost per policy of any of the other FAIR Plans in the nation. This past year has been no exception and my hat is off to all those individuals.

In 2003, the Pennsylvania Plan saw growth in its New Applications count as well as in number of New Policies Issued. New Applications Received increased just over 31% to 11,331 while Total Policies Issued rose almost 2% to 48,779. Losses Reported, not unexpectedly, also increased somewhat from 1,071 in 2002 to 1,138 reported in 2003. Total Loss Incurred rose 14% and the Pure Loss Ratio increased three points to 45.48%. The result translated to a year end Underwriting surplus of $53,763 and a Net Result of Operations surplus of $128,468.

During the year, the Pennsylvania FAIR Plan continued to provide management and functional support for both the Delaware FAIR Plan and the West Virginia Essential Property Insurance Association. In addition, the Pennsylvania Plan provides crime insurance protection as well as the basic property insurance offered to the citizens of Pennsylvania. Although these programs remain small, management has continued to provide the same high quality and professional service to all policyholders and member companies

Throughout the year, the organization experienced numerous changes to its Board and Governing Committees. To those individuals who have left us but gave 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 had many of those same people serving on our Board and Governing Committees.

In closing, I would like to thank General Manger John Ogle and his staff for their diligent efforts in operating the organization in an efficient and effective manner. Without their dedication, little of what we accomplish in the Board Room would ever become reality. I would also like to take this opportunity to thank General Counsel Samuel Gerace for his timely and thorough advice. I also wish to recognize and thank the Pennsylvania Insurance Department for their active participation and involvement. Lastly, I would like to thank each of my fellow Board and Committee Members for their individual contributions to this organization. Your support is gratifying and I am confident that the Pennsylvania FAIR Plan remains in capable hands.

Respectfully submitted,

Karl Brondell

Mr. Karl M. Brondell
Chairman

Report of the General Manager
Mr. John M. Ogle
Insurance Placement Facility of Pennsylvania
Annual Meeting
April 20, 2004
Philadelphia, PA
1:30 p.m.

Good Afternoon. It is a pleasure to be with you on this, the 36th Annual Meeting of the Insurance Placement Facility of Pennsylvania.

This past year, we were reminded that the insurance business cycle that many said was dead, was in fact, alive and kicking. As the property insurance market tightened, the Pennsylvania FAIR Plan saw a considerable influx of new business. It was just little more than 16 months ago that the Pennsylvania FAIR Plan issued its lowest policy count since the early 1970's. Indeed, policy counts had been shrinking at a relatively steady rate since 1986. In 2003; however, policy counts grew by nearly 2% and New Business counts grew by more than 29%.

As New Business counts increased, so did the corresponding Underwriting Expenses. The Plan saw inspection expenses increase by nearly 34% while commission costs increased nearly 8% and postage costs rose just over 14%. Despite the increased new business activity, the Plan maintained its customary high level of customer service. New Business Application processing standards were met in 11 consecutive months of 2003. Rating errors were well under standards and pending workloads never exceeded standard in any of the 12 months of 2003.

All in all, 2003 is best categorized as a year of uncertainty. Like all insurance companies, the Pennsylvania 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 Pennsylvania FAIR Plan, in 2003 the Plan saw up close the uncertainties of Hurricane Isabel as she teetered just off the mid-Atlantic coast with an expected track over the densely populated areas of eastern Pennsylvania. In addition, the sudden interruption of electrical power, just days before the widespread blackout which impacted much of the Northeast, left us looking for the proverbial "other shoe".

In the end, Hurricane Isabel did not strike a catastrophic blow and power was interrupted only temporarily. Uncertain litigation proved unfounded and the Plan continued its operations unscathed. Through it all, 2003 was the third consecutive year of a recorded surplus. Premiums Earned were $12,480,476 while Losses Incurred totaled $5,675,785 and Loss Adjustment Expense Incurred totaled $859,661. With General Expenses topping $5,891,000, a year end underwriting surplus of $53,763 resulted. Taking into account Investment Income and Other Income and Expenses, the 2003 Net Result of Operations for the Pennsylvania FAIR Plan was a surplus of $128,468.

As we approach our 37th year of operation, the Plan remains in a specter of uncertainty. As the insurance marketplace again adjusts itself to the changing conditions of the marketplace, the impact on the FAIR Plan is unknown. Although the future remains cloudy, the Plan is prepared to meet the challenges that lie ahead. The Pennsylvania FAIR Plan remains committed to operating a professional and efficient organization 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 Pennsylvania Insurance Department for their input and guidance throughout 2003.

The Pennsylvania FAIR Plan 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 organization. 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 Manger

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

PENNSYLVANIA FAIR PLAN

Treasurer's Report

December 31, 2003

ASSETS	
Cash in Bank	4,019,295.74
Investments, Short term at cost plus accumulated discount	4,326,438.34
Accrued Investment Income	0.00
Due from Participating Members	141,169.97
Premiums Receivable	16,322.20
Other Receivables	170,818.87
Prepaid Premium Tax	0.00
Equipment *	0.00
Total Assets	8,674,045.12
LIABILITIES AND MEMBERS' EQUITY	
Unearned Premiums	6,543,987.00
Unearned Advance Premiums	245,367.00
Outstanding Losses	2,184,875.00
Outstanding Loss Adjustment Expenses	294,238.00
Accrued Expenses	115,033.00
Unpaid Post Retirement Benefits	2,311,213.00
Accounts Payable	169,299.08
Claims Checks Payable	544,966.29
Unpaid Premium Tax	29,688.68
Total Liabilities	12,438,667.05
Members' Equity (Deficit)	(3,764,621.93)
Total Liabilities and Members' Equity	8,674,045.12

Respectfully Submitted,

Wayne A. Rieck

Wayne A. Rieck
Accounting Manager

* E. D. P. Equipment

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Insurance Placement Facility of Pennsylvania:

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' deficit of Insurance Placement Facility of Pennsylvania (the Facility) as of December 31, 2003 and 2002, 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 Facility'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 Facility prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania, 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 Facility's liabilities exceeded its assets by $3,647,430 at December 31, 2003 and $4,696,729 at December 31, 2002. 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 the Insurance Placement Facility of Pennsylvania 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' deficit of Insurance Placement Facility of Pennsylvania 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 supplemental 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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

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

December 31, 2003 and 2002

Admitted Assets		2003	2002
Cash	$	4,019,296	2,366,986
Short-term investments, at amortized cost which approximates market value		4,326,438	4,307,082
Due from related parties		170,819	62,225
Premiums receivable		16,322	20,153
Assessments receivable		141,170	—
Total admitted assets	$	8,674,045	6,756,446
Liabilities and Members' Deficit			
Liabilities:			
Unearned premiums	$	6,543,987	6,210,570
Claims/drafts payable		544,966	459,950
Unpaid losses and loss adjustment expenses		2,479,113	2,326,834
Unearned advanced premiums		245,367	232,948
Postretirement benefits payable		1,168,368	934,638
Pension liability		1,025,653	997,510
Other liabilities		314,021	290,725
Total liabilities		12,321,475	11,453,175
Members' deficit		(3,647,430)	(4,696,729)
Total liabilities and members' deficit	$	8,674,045	6,756,446

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Operations and Members' Deficit

Years ended December 31, 2003 and 2002

	2003	2002
Underwriting:		
Premiums earned	$ 12,480,467	11,718,128
Less:		
Losses incurred	5,675,786	4,978,740
Loss adjustment expenses incurred	859,659	1,259,695
Underwriting and other expenses incurred	4,928,139	5,463,959
	11,463,584	11,702,394
Net underwriting gain	1,016,883	15,734
Net investment income	19,357	39,911
Other income (expense):		
Premiums/assessments receivable charged off	(24,528)	(16,193)
Other income	79,877	27,088
Other income, net	55,349	10,895
Net income	1,091,589	66,540
Members' deficit, beginning of year	(4,696,729)	(4,871,907)
Change in nonadmitted assets	(48,952)	108,638
Member contributions	2,232,480	—
Refund to members	(2,225,818)	—
Members' deficit, end of year	$ (3,647,430)	(4,696,729)

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operations:			
Premiums collected, net	$	12,828,506	12,131,829
Loss and adjustment expenses paid (net of salvage and subrogation)		(6,298,149)	(6,705,341)
Underwriting expenses paid		(4,593,673)	(4,319,456)
Investment income, net		19,357	39,911
Premiums/assessments receivable charged off		(24,528)	(16,193)
Other income		79,877	27,088
Net cash from operations		2,011,390	1,157,838
Cash flows from financing and other miscellaneous sources:			
Refunds to members, net of contributions		(134,508)	—
Other, net		(205,216)	83,615
Net cash (used by) from financing and other miscellaneous sources		(339,724)	83,615
Net increase in cash and short-term investments		1,671,666	1,241,453
Cash and short-term investments:			
Beginning of year		6,674,068	5,432,615
End of year	$	8,345,734	6,674,068

See accompanying notes to statutory financial statements.

(1) Summary of Significant Accounting Policies

The statutory financial statements of Insurance Placement Facility of Pennsylvania (the Facility) 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 Commonwealth of Pennsylvania.

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 Facility'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.

(f) Variances from Generally Accepted Accounting Principles

Certain of the prescribed or permitted insurance accounting practices followed by the Facility 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.

(Continued)

- Certain assets designated as "nonadmitted" would be reflected in the statements 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.

(2) General

The Facility was created by an act of the General Assembly of the Commonwealth of Pennsylvania (The Pennsylvania Fair Plan Act) to make available basic property insurance against fire and other perils for residential and business properties located in the Commonwealth. Each authorized insurance company in the Commonwealth participates in the profits and losses of the Facility in the proportion that certain premiums written in the Commonwealth by each company during the second preceding calendar year bear to the aggregate of such premiums written by all authorized companies and is subject to future cash assessments, if required. Member deficits of $3,647,430 and $4,696,729 at December 31, 2003 and 2002, respectively, will ultimately be assessed to the participating companies.

The Facility shares office space and the service of certain employees with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association, both of which pay the Facility a portion of such joint expenses based on estimates of actual usage.

(3) Federal Income Taxes

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

(4) Employee Benefits

The Facility, in conjunction with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Benefits Connection Group 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 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 Facility:

		2003	2002
Change in projected benefit obligation:			
Benefit obligation at January 1	$	5,593,688	4,908,500
Service cost		172,466	162,559
Interest cost		388,011	354,970
Actuarial loss		526,169	320,480
Benefits paid		(159,803)	(152,821)
Benefit obligation at December 31	$	6,520,531	5,593,688
Change in plan assets:			
Fair value of plan assets at January 1	$	3,720,039	4,296,925
Actual return on plan assets		888,106	(424,065)
Employer contributions		40,795	—
Benefits paid		(159,803)	(152,821)
Fair value of plan assets at December 31	$	4,489,137	3,720,039
Funded status	$	(2,031,394)	(1,873,649)
Unrecognized net actuarial loss		1,501,353	1,694,867
	$	(530,041)	(178,782)

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

		2003	2002
Components of net periodic pension cost:			
Service cost	$	172,466	162,559
Interest cost		388,011	354,970
Expected return on plan assets		(309,138)	(380,255)
Amortization of transition asset and other		278,702	14,896
Net periodic pension cost	$	530,041	152,170
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 2002, the Facility had an additional minimum pension liability of $495,612 and $818,728, respectively. The change in the additional minimum pension liability was recorded in underwriting and other expenses in the accompanying statement of operations for both years.

The benefit obligation excludes liabilities for nonvested employees, which were $9,180 and $2,474 at December 31, 2003 and 2002, respectively.

The employees of the Facility 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 Benefits Connection Group 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 Facility matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Facility amounted to $106,356 and $100,250 in 2003 and 2002, respectively.

The Facility provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employee's basic annual salary. For employees who are under age 65 at retirement, the Facility 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 Facility pays the full cost of life insurance with coverage limited to $5,000.

Retired employees of the Facility 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 Facility.

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

		2003	2002
Accumulated postretirement benefit obligation:			
Postretirement benefit obligation for retirees and fully vested plan participants	$	1,279,167	997,633
Plan assets at fair value		—	—
Accumulated postretirement benefit obligation in excess of plan assets		1,279,167	997,633
Unrecognized loss		(298,186)	(277,358)
Unrecognized prior service		187,387	214,363
Accrued postretirement benefit cost	$	1,168,368	934,638

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

		2003	2002
Service cost/eligibility cost	$	243,970	143,003
Interest cost		62,620	47,345
Amortization of loss		8,579	2,322
Amortization of prior service cost		(26,183)	(26,280)
Net periodic postretirement benefit cost	$	288,986	166,390

(Continued)

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 $161,511 and net periodic postretirement benefit cost for the year ended December 31, 2003 by $50,977. 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	$ 2,326,834	2,676,422
Incurred related to:		
Current year	6,339,427	6,387,337
Prior years	196,018	(148,902)
Total incurred	6,535,445	6,238,435
Paid related to:		
Current year	3,940,874	4,493,516
Prior years	2,442,292	2,094,507
Total paid	6,383,166	6,588,023
Balance, December 31	$ 2,479,113	2,326,834

As a result of changes in estimates for anticipated losses and loss adjustment expenses to insured events of prior years, the liability for losses and loss adjustment expenses increased by $196,018 and decreased by $148,902 in 2003 and 2002, respectively.

(6) Lease Commitments

The Facility 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	$ 241,057
2005	243,289
2006	254,449
2007	254,449
2008	84,816
Total payments	$ 1,078,060

Total rental expense was $255,637 and $235,173 in 2003 and 2002, respectively.

Rentals included above are net of amounts allocated to the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association for common facilities.

(7) Related-Party Transactions

The Facility issues all checks for claims and other payables for the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association, and is then reimbursed by these facilities. Throughout 2003 and 2002, $344,371 and $427,072, respectively, were paid on behalf of the Insurance Placement Facility of Delaware and $349,620 and $214,451, respectively, were paid on behalf of the West Virginia Essential Property Insurance Association. At December 31, 2003 and 2002, $14,773 and $30,802, respectively, is due from the Insurance Placement Facility of Delaware and $156,046 and $31,423, respectively, is due from the West Virginia Essential Property Insurance Association.

(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' deficit
As reported in the annual statement	$	128,468	(3,764,622)
2002 underwriting and other expense adjustment		845,929	—
2003 underwriting and other expense adjustment		117,192	117,192
As reported herein	$	1,091,589	(3,647,430)

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