



REPORT OF THE ANNUAL MEETING

April 27, 2006

Insurance Placement Facility of Pennsylvania

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

Board of Directors

2005 - 2006

Ms. Joanne K. Martyn, Chairperson	Chubb Group of Insurance Companies
Mr. John D. Fillippo	ACE USA
Ms. Susan A. Erney	The Harleysville Insurance Companies
Mr. William W. Martin	The Hartford
Mr. Terry McConnell	Erie Insurance Group
Ms. Andrea Short	Allstate Insurance Companies
Ms. Marci Thomas	State Farm Insurance Companies
Mr. Daniel M. Taylor, Jr., Esq., General Counsel	Swartz Campbell, LLC
Mr. John M. Ogle, General Manager	Insurance Placement Facility of Pennsylvania

AGENDA FOR THE ANNUAL MEETING
INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

April 27, 2006 - 1:30 P.M.

1. Call to Order - 1:30 P.M. - Ms. Joanne K. Martyn, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 19, 2005
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 2006 - 2007

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 27, 2006
Administrative Offices of the Facility
1:30 p.m.
530 Walnut Street, Suite 1650
Philadelphia, PA

The Annual Meeting of the Insurance Placement Facility of Pennsylvania was called to order with Chairperson Ms. Joanne K. Martyn presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present or by proxy. Mr. Ogle reported that attendees represented 155 companies or 61.13% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 19, 2005 Annual Meeting were approved as distributed.

A motion to ratify the actions of the Board of Directors for the 2005-2006 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 noted the 2005 financial audit report provided by the accounting firm of Smart and Associates, LLP was presented to the Board of Directors and will be made part of the Annual Report submitted to Member Companies.

With no other new business, Nominating Committee Chairman Mr. William W. Martin, placed into nomination the following Member Companies to serve on the Board of Directors for the 2006-2007 term.

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

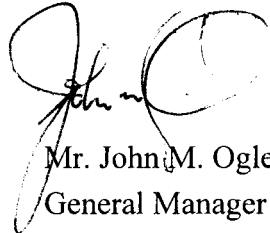
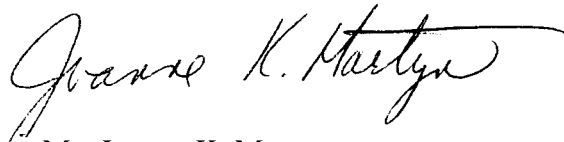
There being no other nominations, it was moved, seconded and carried to close nominations. Chairperson Martyn requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 144 companies representing 59.57% of the membership 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 2007.

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

Approved by

Respectfully submitted by,



Ms. Joanne K. Martyn
Chairperson of the Board

Mr. John M. Ogle
General Manager

Report of the Chairperson
Ms. Joanne K. Martyn
38th Annual Meeting of Members
of the
Insurance Placement Facility of Pennsylvania
April 27, 2006
1:30 p.m.
Philadelphia, PA

Good Afternoon and welcome to the 38th Annual Meeting of the Insurance Placement Facility of Pennsylvania. Although the past year will forever be defined by the single word, “Katrina”, it included many other challenges beyond the payment of claims. Throughout the industry, companies are now forced to consider the new reality of more numerous and larger storms. Storms that not only impact the bottom line but also strain the industry’s limited claim adjusting force. Storms that scatter claimants as well as employees countrywide and place upon the industry, the regulators and the government even higher expectations. What was once considered events of fiction are now facts and what was once considered herculean service may now be second guessed or openly criticized.

As for the Insurance Placement Facility of Pennsylvania, I am pleased to report the high profile catastrophic storms experienced in other regions of the country did not impact the state of Pennsylvania. More so, unlike previous years, the Pennsylvania FAIR Plan did not experience any large volume of individual fire losses, massive ice storms or nor’eastern windstorm events that can so negatively impact the FAIR Plan’s bottom line.

For the year, the Pennsylvania FAIR Plan recorded Earned Premiums of \$13,705,654 offset by \$5,073,71 in Losses and almost \$1,482,850 in Loss Adjustment Expenses. With \$4,737,930 in General Expenses, the Pennsylvania FAIR Plan recorded a 2005 Underwriting surplus of \$2,411,143. This surplus continues a string of positive results which dates back many years.

Although the General Manager’s report will provide some detailed statistics, I would like to review some highlights. In 2005 the Pennsylvania FAIR Plan saw its total policy counts fall by 8.2% to 44,078 policies. New Policies Issued fell by just over 27% to 6,418 policies. The Pennsylvania FAIR Plan had just 896 reported losses in 2005, a decline of 22.8% resulting in \$5,065,839 in claim payments.

Since our 1968 inception, the Pennsylvania FAIR Plan has issued almost 2,562,700 policies and collected just over \$441,256,000 in premiums, while paying out over \$298,637,226 in losses. I

am pleased to report that as another year has been added to the ledger, the Pennsylvania FAIR Plan continues to meet its primary responsibility of providing a source for basic property coverage to the citizens of Pennsylvania. Through 38 years, the Pennsylvania FAIR Plan has been a cost effective and reliable source for those who have been unable to obtain basic insurance protection in the voluntary market.

The Insurance Placement Facility of Pennsylvania continues to provide management and functional support to the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association. The relationships continue to benefit the three organizations and I remain convinced that sharing resources and common expenses is the most cost effective manner to operate this organization. Although the Pennsylvania FAIR Plan is not a large program, its management continues to provide the same high quality and professional services to all its policyholders and member companies.

As has become routine in the insurance industry, throughout the year the organization has experienced various 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 we have been fortunate to have had many of those same people serving on our Board and Governing Committees.

I would also like to thank each of my fellow Board and Committee Members for their individual contributions to this organization. Your support has been gratifying and I look forward to meeting the challenges of the upcoming year, whatever they may be.

In closing, I would like to thank General Manager John Ogle and his staff for their diligent efforts in operating this organization in an efficient and effective manner. Without their dedication little of what we accomplish in the board room would ever become reality in the day to day operations of the Plan. I would also like to take this opportunity to thank General Counsel Daniel Taylor for his timely and thorough advice. Lastly, I would like to recognize and thank all the members of the Pennsylvania Insurance Department for their active participation.

Respectfully submitted,



Joanne K. Martyn
Chairperson

Report of the General Manager
John M. Ogle
Annual Meeting
of the
Insurance Placement Facility of Pennsylvania
April 27, 2006
Philadelphia, Pennsylvania
1:30 a.m.

Good Afternoon. I am pleased to be here this afternoon and to report on the results of the Insurance Placement Facility of Pennsylvania. This past year, the Plan saw a decline in both application counts and total policies. The Pennsylvania FAIR Plan saw a decline of almost 8.2% from the 48,005 policies issued in 2004.

In 2005, the Pennsylvania Plan saw most of its statistical categories decline. In addition to falling policy counts, New Applications Received fell by 23.2% to 8,126 and New Policies Issued dropped 27.1% to 6,418. Both the residential and the commercial books recorded less activity with habitation business off 8.2% and commercial business off 8.3%. Losses Reported dropped 22.8% to 896 and the resultant Loss Incurred fell by just under 14% to \$5,073,731. All in all, the Pennsylvania FAIR Plan finished with a year end surplus of \$2,669,789, continuing a string of positive results.

Management remained vigilant on cost control and several significant reductions were noted in the year end results. From telephone and mailing costs to underwriting inspections and equipment, costs were below planned spending levels. The Insurance Placement Facility of Pennsylvania finished 2005, 5.6% below its planned budget.

As we reflect on two years of extraordinary hurricane losses experienced in the gulf coast region and to the state of Florida, we are fortunate to have avoided the many weather related events that normally impact the mid-Atlantic region. Pennsylvania recorded a calm 2004/2005 winter season and the summer season brought no large scale outbreaks of summer thunderstorms so common to the region. The Pennsylvania FAIR Plan recorded only two catastrophe events during 2005, resulting in less than \$50,000 in damages.

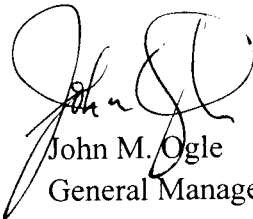
The 2005 downturn in New Applications and Policies Issued may be a sign of a new insurance cycle in Pennsylvania or it may be a temporary shift in business. In either case; however, the Pennsylvania FAIR Plan stands ready to meet the challenges of the new year.

As the Pennsylvania FAIR Plan ages, so have the people who make it all work. Many of our friends, employees, Board and Committee Members have reached that stage in their life wherein they decide its time to do something else. In 2005, the Plan said good bye to its longtime Accounting Manager and General Counsel. We have also seen others change employers or be promoted to greater responsibilities. To all those individuals who helped operate or oversee the Plan, but are now gone, I would like to extend my thanks for your many years of service.

I would also like to recognize and thank all the members of the Staff. Each department faces considerable challenges throughout the year and I think the individual contributions of the employees should be recognized. Each employee at the Plan performs functions that impact or places demands on their fellow employees. That process can be routine or complex. It can be smoothly executed or be an exercise in frustration, but in all cases I am impressed with the Staff's professionalism and attention to detail.

I would be remiss if I did not thank all the individual Board and Committee Members who give so freely of their time, energy and expertise. Your input and support is far more gratifying than you might realize. In particular, I would like to thank General Counsel Dan Taylor for his guidance and Chairperson Joanne Martyn for her assistance in ensuring that the Insurance Placement Facility of Pennsylvania continues to provide a cost effective and efficient market of last resort.

Respectfully submitted,



John M. Ogle
General Manager

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

PENNSYLVANIA FAIR PLAN

Treasurer's Report

December 31, 2005

ASSETS

Cash in Bank	2,055,467.24
Investments, Short term at cost plus accumulated discount	11,318,329.35
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	30,594.40
Other Receivables	132,821.43
Prepaid Premium Tax	0.00
Equipment *	0.00
Total Assets	13,537,212.42

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	7,068,779.00
Unearned Advance Premiums	327,203.00
Outstanding Losses	2,383,744.00
Outstanding Loss Adjustment Expenses	642,311.00
Accrued Expenses	89,129.00
Unpaid Post Retirement Benefits	1,114,548.00
Unpaid Pension	1,257,407.00
Accounts Payable	149,204.42
Claims Checks Payable	673,479.71
Unpaid Premium Tax	36,475.46
Total Liabilities	13,742,280.59
Members' Equity (Deficit)	(205,068.17)
Total Liabilities and Members' Equity	13,537,212.42

Respectfully Submitted,



RoseMarie McDonald
Accounting Manager

* E. D. P. Equipment

**INSURANCE PLACEMENT FACILITY
OF PENNSYLVANIA**

Statutory Financial Statements,
Independent Auditors' Report and
Supplemental Schedules

For the Years Ended
December 31, 2005 and 2004

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Table of Contents
For the Years Ended
December 31, 2005 and 2004

	<u>Page(s)</u>
Independent Auditors' Report	1
Statutory Financial Statements:	
Statutory Statements of Admitted Assets, Liabilities and Members' Deficit	2
Statutory Statements of Operations and Members' Deficit	3
Statutory Statements of Cash Flows	4
Notes to Statutory Financial Statements	5 – 14
Supplemental Schedules	
Schedule 1 – Supplemental Investment Risk Interrogatories	15 – 16
Schedule 2 – Summary of Investments	17



S M A R T

AND ASSOCIATES, LLP

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, 2005, and the related statutory statements of operations and members' deficit and cash flows for the year then ended. These statutory financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these statutory financial statements based on our audit. The financial statements of Insurance Placement Facility of Pennsylvania for the year ended December 31, 2004, were audited by other auditors whose report dated March 25, 2005, expressed an unqualified opinion on those statements which were prepared on the basis of accounting described in Note 1.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory financial statements, the Facility prepared these statutory financial statements using accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Facility's liabilities exceeded its assets by \$205,069 at December 31, 2005 and \$2,507,910 at December 31, 2004. Such amounts, however, are recoverable from member companies (Note 2).

In our opinion, the statutory 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, 2005, 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 audit was made for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental investment disclosures, as of and for the year ended December 31, 2005, are presented to comply with the National Association of Insurance Commissioner's Accounting Practices and Procedures manual and is not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Facility and for filing with the Insurance Department of the Commonwealth of Pennsylvania and other state insurance departments to whose jurisdiction the Facility is subject and is not intended to be and should not be used by anyone other than these specified parties.

Smart + Associates LLP

March 15, 2006

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
Statutory Statements of Admitted Assets, Liabilities and Members' Deficit
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ADMITTED ASSETS		
Fixed maturities at amortized cost	\$ 9,510,544	\$ 6,825,907
Cash and cash equivalents	3,863,253	3,568,939
Due from related parties	132,821	210,118
Premiums receivable	<u>30,594</u>	<u>19,287</u>
 Total admitted assets	 <u><u>\$ 13,537,212</u></u>	 <u><u>\$ 10,624,251</u></u>
LIABILITIES AND MEMBERS' DEFICIT		
Liabilities:		
Unearned premiums	\$ 7,068,779	\$ 7,066,260
Claims/drafts payable	673,480	551,184
Unpaid losses and loss adjustment expenses	3,026,055	2,821,068
Unearned advanced premiums	327,203	282,683
Postretirement benefits payable	1,114,548	1,261,999
Pension liability	1,257,407	822,131
Other liabilities	<u>274,809</u>	<u>326,836</u>
 Total liabilities	 13,742,281	 13,132,161
 Members' deficit	 <u>(205,069)</u>	 <u>(2,507,910)</u>
 Total liabilities and members' deficit	 <u><u>\$ 13,537,212</u></u>	 <u><u>\$ 10,624,251</u></u>

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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Operations and Members' Deficit

For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Underwriting:		
Premiums earned	<u>\$ 13,705,654</u>	<u>\$ 13,128,250</u>
Less:		
Losses incurred	5,073,731	5,892,613
Loss adjustment expenses incurred	1,482,850	1,468,557
Underwriting and other expenses incurred	<u>4,681,749</u>	<u>5,011,572</u>
	<u>11,238,330</u>	<u>12,372,742</u>
Net underwriting gain	<u>2,467,324</u>	<u>755,508</u>
Investment income	<u>232,815</u>	<u>59,027</u>
Other income (expense):		
Premiums/assessments receivable charged off	(11,343)	(10,945)
Other income	<u>37,175</u>	<u>53,514</u>
Other income, net	<u>25,832</u>	<u>42,569</u>
Net income	2,725,971	857,104
Members' deficit, beginning of year	(2,507,910)	(3,647,430)
Change in nonadmitted assets	34,308	74,952
Change in minimum pension liability	<u>(457,438)</u>	<u>207,464</u>
Members' deficit, end of year	<u>\$ (205,069)</u>	<u>\$ (2,507,910)</u>

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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Cash Flows

For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Premiums collected, net	\$ 13,747,929	\$ 13,675,412
Loss and adjustment expenses paid (net of salvage and subrogation)	(6,351,594)	(7,012,998)
Underwriting expenses paid	(4,890,367)	(4,894,110)
Investment income	167,677	47,436
Premiums/assessments receivable charged off	(11,343)	(10,945)
Other income	37,175	53,514
	<u>2,699,477</u>	<u>1,858,309</u>
Cash flows from investing activities:		
Proceeds from investments sold, matured, or repaid:		
Fixed maturity investments	17,164,000	3,312,000
Cost of investments acquired:		
Fixed maturity investments	<u>(19,663,082)</u>	<u>(10,126,315)</u>
	<u>(2,499,082)</u>	<u>(6,814,315)</u>
Cash flows from financing and other miscellaneous activities:		
Refunds to members, net of contributions		141,170
Other, net	93,919	38,041
	<u>93,919</u>	<u>179,211</u>
Net (decrease) increase in cash and cash equivalents	294,314	(4,776,795)
Cash and cash equivalents, beginning of year	<u>3,568,939</u>	<u>8,345,734</u>
Cash and cash equivalents, end of year	<u>\$ 3,863,253</u>	<u>\$ 3,568,939</u>

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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

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:

Premiums:

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

Commissions:

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

Nonadmitted Assets:

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

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.

Use of Estimates:

The preparation of statutory financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Invested Assets:

Bonds are carried at values prescribed by the Securities Valuation Office ("SVO") of the NAIC. Bonds are generally carried at amortized cost. Estimated fair value of bonds is determined using values prescribed by the SVO that approximate quoted market values. Charges associated with investments that are other than temporarily impaired are reflected within the statutory statements of operations. Realized investment gains or losses are determined using the specific-identification method.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

1. Summary of Significant Accounting Policies, continued:

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and other highly liquid temporary investments. The carrying value of cash equivalents approximates fair value. Interest and dividend income from cash and cash equivalents is included in investment income on the statutory statements of operations.

Variances from Generally Accepted Accounting Principles:

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

- 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 statutory statements of admitted assets, liabilities, and members’ deficit.
- Fixed income securities are carried at amortized cost regardless of their classification.
- Calculation of the pension obligation excludes non-vested employees.

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

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

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 \$205,069 and \$2,507,910 at December 31, 2005 and 2004, 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.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

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. Investments:

Investments as of December 31, 2005, the amortized cost and NAIC market value of investments in fixed maturities are as follows. NAIC market value approximates estimated fair value.

<u>2005</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>NAIC market value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 9,510,544	\$ -	\$ 14,699	\$ 9,495,845
<u>2004</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>NAIC market value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 6,825,907	\$ -	\$ 7,924	\$ 6,817,983

All fixed maturity investments at December 31, 2005, have contractual maturity dates within one year.

Proceeds from the sales of fixed maturities during the year ended December 31, 2005 were \$17,164,000. Gross gains of \$147,486 were realized on those sales during 2005.

The components of net investment income earned for the years ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Fixed maturities	\$ 185,554	\$ 25,127
Cash and short-term investments	47,260	33,900
Investment income	<u>\$ 232,815</u>	<u>\$ 59,027</u>

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
Notes to Statutory Financial Statements, continued
For the Years Ended
December 31, 2005 and 2004

5. 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 Facility uses a December 31 measurement date for its pension plan.

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

	<u>2005</u>	<u>2004</u>
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 7,199,911	\$ 6,520,531
Service cost	183,748	180,639
Interest cost	421,709	393,807
Actuarial loss	525,722	301,354
Benefits paid	<u>(205,241)</u>	<u>(196,420)</u>
 Benefit obligation at December 31	 <u>8,125,849</u>	 <u>7,199,911</u>
Change in plan assets:		
Fair value of plan assets at January 1	5,340,759	4,489,137
Actual return on plan assets	405,920	847,062
Employer contributions	172,251	200,980
Benefits paid	<u>(205,241)</u>	<u>(196,420)</u>
 Fair value of plan assets at December 31	 <u>5,713,689</u>	 <u>5,340,759</u>
 Funded status	 (2,412,160)	 (1,859,152)
 Unrecognized net actuarial loss	 <u>1,942,817</u>	 <u>1,325,169</u>
	<u>\$ (469,343)</u>	<u>\$ (533,983)</u>

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
Notes to Statutory Financial Statements, continued
For the Years Ended
December 31, 2005 and 2004

5. Employee Benefits, continued:

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

	<u>2005</u>	<u>2004</u>
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.25%

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

	<u>2005</u>	<u>2004</u>
Components of net periodic pension cost:		
Service cost	\$ 183,748	\$ 180,639
Interest cost	421,709	393,807
Expected return on plan assets	(446,014)	(380,986)
Amount of loss recognized	<u>106,535</u>	<u>82,671</u>
Net periodic pension cost	<u>\$ 265,978</u>	<u>\$ 276,131</u>

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

	<u>2005</u>	<u>2004</u>
Discount rate	5.75%	6.25%
Expected long-term rate of return	8.50%	8.50%
Weighted average rate of compensation increase	3.25%	3.50%

The accumulated benefit obligation for the plan was \$6,971,097 and \$6,162,890 at December 31, 2005 and 2004, respectively.

Accrued benefit cost recognized in the accompanying statutory statements of admitted assets, liabilities, and members' deficit was \$1,257,408 and \$822,131 at December 31, 2005 and 2004, respectively.

An additional minimum pension liability ("AML") is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2005 and 2004, the Facility had an AML of \$788,065 and \$288,148, respectively.

The Facility changed the manner in which it accounts for the AML in 2004 to conform to the requirements of SSAP No. 89, *Accounting for Pensions, A Replacement of SSAP No. 8*. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. Previously, changes to the AML were recorded through the statutory statement of operations. The increase/(decrease) in the AML during 2005 and 2004, respectively was \$499,917 and (\$207,464) and was credited directly to members' deficit. This accounting change did not have any effect on members' deficit at December 31, 2005 or 2004.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

5. Employee Benefits, continued:

The benefit obligation excludes liabilities for nonvested employees, which were \$6,250 and \$607 at December 31, 2005 and 2004, respectively.

The expected long-term rate of return on assets assumption is 8.50%. As defined in Financial Accounting Standards ("FAS 87"), this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The plan's weighted average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

	2005	2004
Asset category:		
Equity securities	59.6%	59.0%
Debt securities	39.7%	38.0%
Cash	0.7%	3.0%

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

The Facility expects to contribute \$466,445 to the plan in 2006.

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

2006	\$ 243,080
2007	257,485
2008	292,638
2009	318,459
2010	339,388
2011-2015	2,475,826

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.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

5. Employee Benefits, continued:

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

The Facility uses a December 31 measurement date for its postretirement benefit plan.

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	\$ 426,345	\$ 1,804,247
Plan assets at fair value	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation in excess of plan assets	426,345	1,804,247
Unrecognized gain/(loss)	508,254	(701,165)
Unrecognized prior service	<u>179,949</u>	<u>158,917</u>
Accrued postretirement benefit cost	<u>\$ 1,114,548</u>	<u>\$ 1,261,999</u>

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Accrued postretirement benefit cost at January 1	\$ 1,261,999	\$ 1,168,368
Benefit expense/(income) for year	(76,948)	164,784
Benefits paid during year	<u>(70,503)</u>	<u>(71,153)</u>
Accrued postretirement benefit cost at December 31	<u>\$ 1,114,548</u>	<u>\$ 1,261,999</u>

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

	<u>2005</u>	<u>2004</u>
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.50%

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

5. Employee Benefits, continued:

Net periodic postretirement benefit cost for 2005 and 2004 includes the following components:

	<u>2005</u>	<u>2004</u>
Service cost/eligibility cost	\$ -	\$ 81,959
Interest cost	(9,425)	80,816
Amortization of loss/(gain)	(38,306)	27,821
Amortization of prior service cost	<u>(29,216)</u>	<u>(25,812)</u>
 Net periodic postretirement benefit cost	 <u>\$ (76,947)</u>	 <u>\$ 164,784</u>

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

	<u>2005</u>	<u>2004</u>
Discount rate	5.75%	6.25%
Weighted average rate of compensation increase	3.50%	3.50%

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 11% and 12% were assumed for 2005 and 2004, respectively. These rate increases were assumed to decrease through 2011 and later when they level off at 5%. The healthcare cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed healthcare cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2005 by \$34,915 and net periodic postretirement benefit cost for the year ended December 31, 2005 by \$1,864.

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

2006	\$ 22,197
2007	25,006
2008	27,995
2009	29,898
2010	29,898
2011-2015	194,881

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 \$98,059 and \$99,987 in 2005 and 2004, respectively.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

6. Liability for Unpaid Losses and Loss Adjustment Expenses:

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

	<u>2005</u>	<u>2004</u>
Balance, January 1	\$ 2,821,068	\$ 2,479,113
Incurred related to:		
Current year	6,776,070	7,940,428
Prior years	<u>(219,489)</u>	<u>(579,258)</u>
Total incurred	<u>6,556,581</u>	<u>7,361,170</u>
Paid related to:		
Current year	4,404,419	5,250,567
Prior years	<u>1,947,175</u>	<u>1,768,648</u>
Total paid	<u>6,351,594</u>	<u>7,019,215</u>
Balance, December 31	<u>\$ 3,026,055</u>	<u>\$ 2,821,068</u>

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 decreased by \$219,489 and \$579,258 in 2005 and 2004, respectively.

7. Lease Commitments:

The Facility conducts its operations in leased premises under a lease that will expire April 30, 2008. At December 31, 2005, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:

2006	\$ 250,839
2007	250,839
2008	<u>83,613</u>
Total payments	<u>\$ 585,291</u>

Total rental expense was \$266,169 and \$259,326 in 2005 and 2004, 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.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the Years Ended

December 31, 2005 and 2004

8. 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 2005 and 2004, \$606,580 and \$776,408, respectively, was paid on behalf of the Insurance Placement Facility of Delaware and \$887,364 and \$527,402, respectively, was paid on behalf of the West Virginia Essential Property Insurance Association. At December 31, 2005 and 2004, \$50,686 and \$30,077, respectively, is due from the Insurance Placement Facility of Delaware and \$82,135 and \$180,041, respectively, is due from the West Virginia Essential Property Insurance Association.

9. Annual Statement Reconciliation:

The following is a reconciliation between the accompanying statutory financial statements and the Annual Statement for the years ended December 31, 2005 and 2004:

	2005	
	Net income	Members' deficit
As reported in the Annual Statement	\$ 2,669,790	\$ (205,069)
2005 underwriting and other expense adjustment	56,182	-
As reported herein	\$ 2,725,972	\$ (205,069)
	2004	
	Net income	Members' deficit
As reported in the Annual Statement	\$ 1,237,942	\$ (2,451,728)
2003 underwriting and other expense adjustment	(117,192)	-
2004 underwriting and other expense adjustment	(263,646)	(56,182)
As reported herein	\$ 857,104	\$ (2,507,910)

The underwriting and other expense adjustments relate to the additional minimum pension liability adjustments discussed in Note 5.

SUPPLEMENTAL SCHEDULES

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
 Supplemental Investment Risk Interrogatories
 December 31, 2005

Total admitted assets at December 31, 2005 \$ 13,537,212

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 Company; 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	\$ -	0.00%	None	\$ -	0.00%	

3. The Company holds no foreign investments.
4. The Company holds no Canadian investments.
5. The Company 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 Company holds no nonaffiliated, privately placed equities.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
Supplemental Investment Risk Interrogatories, continued
December 31, 2005

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

See accompanying independent auditors' report.

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Summary of Investments

December 31, 2005

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
US Treasury Bills	\$ 3,602,330	26.94%	3,602,330	26.94%
Federal Home Loan Mortgage Association	5,908,214	44.18%	5,908,214	44.18%
Cash and cash equivalents	<u>3,863,253</u>	<u>28.89%</u>	<u>3,863,253</u>	<u>28.89%</u>
Total invested assets	<u>\$ 13,373,797</u>	<u>100.00%</u>	<u>\$ 13,373,797</u>	<u>100.00%</u>

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

See accompanying independent auditors' report.