INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
FAIR PLAN

REPORT OF THE ANNUAL MEETING

April 23, 2008

Insurance Placement Facility of Pennsylvania

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

Board of Directors

2007 - 2008

AGENDA FOR THE ANNUAL MEETING

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

April 23, 2008 - 1:30 P.M.

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1. Call to Order - 1:30 P.M. - Mr. John D. Fillippo, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 24, 2007
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 2008 - 2009

   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 23, 2008
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 Chairman John D. Fillippo presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present in person or by proxy. Mr. Ogle reported that attendees represented 185 companies or 76.53% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 24, 2007 Annual Meeting were approved as distributed.

A motion to ratify the actions of the Board of Directors for the 2007-2008 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 2007 financial audit report provided by the accounting firm of Smart and Associates, LLP as presented and accepted by the Board of Directors 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 2008-2009 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. Chairman Fillippo requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 176 companies representing 75.89% 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 2009.

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

Approved by,

John D. Fillippo

Mr. John D. Fillippo
Chairman of the Board

Respectfully submitted by,

Mr. John M. Ogle
General Manager

Report of the Chairman
Mr. John D. Fillippo

40th Annual Meeting
of the Members of the
Insurance Placement Facility of Pennsylvania
April 23, 2008

Good Afternoon and welcome to the 40th Annual Meeting of the Insurance Placement Facility of Pennsylvania. This occasion is very remarkable when one considers all the questions faced by the public and private sector decision makers in 1968. There was no consensus or road map and no management or staff to operate a residual market. Yet through the process, a workable and cost effective mechanism arose to serve the Pennsylvania marketplace. Since that first policy, the Insurance Placement Facility of Pennsylvania has issued 2,638,668 polices, earned more than $460,00,000 in premium, and incurred slightly more than $310,051,000 in losses.

The Plan has operated through wide swings in the marketplace and within its own operations. The Insurance Placement Facility of Pennsylvania incurred pure loss ratios as high as 112% and as low as 37%. The Plan issued 113,672 policies in a year and as few as 27,428 in another. Staff sizes have been more than 100 and less than 40. Such swings are at the "mood of the market" and they have certainly created some unique challenges for the various management teams.

In 2007, a continuation of a market swing first noted in mid-summer 2005 continued to impact operations. The Plan saw its New Business drop by 22 % and its Policies Issued count decline by 11%. With declining volume, Losses Reported also was impacted, declining by 13% in comparison to 2006.

In 1968 business was done using the post office, the phone company and IBM Selectric typewriters. The technology advancements of the last 40 years changed everything, including how the Insurance Placement Facility of Pennsylvania does business today. The Pennsylvania FAIR Plan now accepts new applications and their respective premium payments over the internet. Electronic manual pages and rate quotations can be accessed by any interested party with a computer and internet access. Electronic communication has become a routine form to transmit information. As we closed 2007 and look past 2008, we see the FAIR Plan making greater use of the electronic world to lower its costs and increase its communications with its policyholders.

Through the years, the staff has remained committed to providing the people of Pennsylvania with a reliable and well run market of last resort. This past year was no different and I am pleased to report the Insurance Placement Facility of Pennsylvania continued to meet its obligations and responsibilities as required by the relevant Pennsylvania statutes and regulations.

For the past 40 years, the Pennsylvania FAIR Plan has continued to provide management and functional support to the Insurance Placement Facility of Delaware. In 1986, the Pennsylvania FAIR Plan also began to provide that same service to the West Virginia Essential Property Insurance Association. These relationships have been a win win for all parties as operational costs and expertise are shared across three Plans. Although both of these operations are considerably smaller than the Pennsylvania Plan, the Plan management operates each Plan with the same high quality and professional services that each policyholder or potential insured has come to expect.

As I complete my first year as Chairman, I would like to thank General Manager John M. Ogle and his management staff for all of their efforts. At the same time, I would like to recognize each of the employees for their continuing efforts to provide service in a timely and efficient manner to the policyholders, agents and brokers as well as the various member companies and regulatory personnel. I would be remiss if I did not also recognize the fine efforts and leadership of the Pennsylvania Insurance Department. In particular, I would like to thank former Pennsylvania Insurance Commissioner, Diane Koken for her assistance to the operation over the last few years. The Pennsylvania FAIR Plan stands ready to assist new Commissioner, Joel Ario, in meeting the demands of the Pennsylvania property insurance market in the future.

I would also like to thank General Counsel Daniel Taylor for his tireless service to the organization. Dan provided the Board with his review and advice on a variety of issues. His opinions have served the Plan and the Board well. In addition, I would like to thank our committee members and in particular, Claims Committee Chairman Robert Barber, Underwriting Committee Chairman Terry McConnell and Accounting Committee Chairman Tom Sykes for having assisted the Department heads and the Board in overseeing the operations.

Lastly, this past year brought many new faces to our Board of Directors and its Committees. To those individuals who have left our organization, I would like to express my best wishes in their future endeavors and my gratitude for their past contributions. I would like to thank my fellow Board members for their participation and support. The job of Chairman carries its own demands but the job performed by my fellow Board and Committee members has certainly made my job as Chairman, much easier.

Respectfully submitted,

John D. Fillippo

Mr. John D. Fillippo
Chairman of the Board

General Manager's Report
Annual Meeting
of the
Insurance Placement Facility Of Pennsylvania
April 23, 2008
1:30 p.m.

Good afternoon and thank you for attending the 40th Annual Meeting of the Insurance Placement Facility of Pennsylvania. In 2007, the Pennsylvania marketplace remained a highly competitive market for the voluntary industry which in turn meant the Insurance Placement Facility of Pennsylvania saw a continuation of a depopulation trend originally established in mid-year 2005. I am pleased to report that in 2007, the Insurance Placement Facility of Pennsylvania continued to meet the purposes of the Plan by providing and servicing a basic property insurance policy to the citizens of Pennsylvania.

As is often the case when milestones or significant anniversary dates are reached, people have the tendency to look back to the "early days". As I looked back at the minutes and notes from those early meetings of the Insurance Placement Facility of Pennsylvania, I saw many changes and similarities over the past four decades. Many of the discussions in the late 1960s were filled with uncertainty and doubt for the future. The individuals worked under a cloud of social unrest in the urban cities and were unconcerned with today's prospects of terrorism or mega-catastrophe. The participants in those meetings, although all familiar names, are people now long retired from the insurance industry. Each year, as those folks have retired we have lost their perspective, expertise and their first hand knowledge. It remains; however, our responsibility to ensure that the FAIR Plan continues to meet not only the purposes of the Plan as envisioned in 1968 but also, as it applies to 2008 and beyond.

In 2007, the Plan recorded earned Premiums of $12,216,500, a decline of 10.2% from 2006. Losses Incurred fell by 14.4% to $5,265,197 and General Expenses declined just over 9% to $4,352,010. As such, the Pennsylvania Plan recorded an operational surplus of $1,860,911. Almost every statistical category showed the impact of the depopulation trend. New Applications fell by 22% and renewal policies issued declined by just over 9%. Losses Reported fell 13.4% and total claim payments made fell 22.3%.

Since inception, the Insurance Placement Facility of Pennsylvania has issued 2,638,668 policies and earned more than $460,009,000 in premium, all while incurring $310,051,278 in losses.

As in recent years, 2007 was an uneventful year for the Pennsylvania FAIR Plan as it incurred few weather related losses and was not involved in any major litigation. In 2007; however, considerable changes were made to accommodate the electronic age of the internet. Electronic submission of new applications and electronic payments for premiums are now routinely accepted through the FAIR Plan website.

None of this would have been possible without the dedication and tireless efforts of my very fine 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 like to take this opportunity to thank each member of the Staff for their contributions

I would be remiss if I did not note the efforts of each member of the Board of Directors and the members of our various Committees. Each of those individuals so freely gives us their expertise and wisdom for the betterment of the organization. I would also like to personally thank our Chairman, John D. Fillippo, for his dedicated service to this organization. I'm quite sure much of the success of the organization is a result of his leadership and abilities. I would also like to thank General Counsel, Daniel Taylor, of the law firm of Swartz Campbell. Dan provided us with well thought out legal advice and I am grateful for his contributions. In closing, I would also like to thank the staff of the Pennsylvania Insurance Department and in particular, former Commissioner Diane Koken. Because of the efforts of all, I feel confident the organization is ready for whatever the future may bring and I look forward to the challenges of the coming years.

Respectfully submitted,

John M. Ogle
General Manager

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

PENNSYLVANIA FAIR PLAN

Treasurer's Report (Revised)

December 31, 2007

ASSETS

Cash in Bank	2,055,002.02
Investments, Short term at cost plus accumulated discount	12,400,720.17
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	32,818.60
Other Receivables	122,597.96
Prepaid Premium Tax	0.00
Total Assets	14,611,138.75

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	5,788,619.00
Unearned Advance Premiums	291,083.00
Outstanding Losses	1,794,070.00
Outstanding Loss Adjustment Expenses	342,230.00
Accrued Expenses	100,694.00
Unpaid Post Retirement Benefits	942,115.00
Unpaid Pension	43,109.00
Accounts Payable	152,109.07
Claims Checks Payable	505,240.61
Unpaid Premium Tax	0.00
Total Liabilities	9,959,269.68
Members' Equity (Deficit)	4,651,869.07
Total Liabilities and Members' Equity	14,611,138.75

Respectfully Submitted,

RoseMarie McDonald
Accounting Manager

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Financial Statements,
Independent Auditors' Report and
Supplemental Schedules

For the years ended December 31, 2007 and 2006

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
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For the years ended December 31, 2007 and 2006

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SMART
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' equity of Insurance Placement Facility of Pennsylvania (the "Facility") as of December 31, 2007 and 2006, and the related statutory statements of operations and members' equity and cash flows for the years 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 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 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.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' equity of Insurance Placement Facility of Pennsylvania as of December 31, 2007 and 2006, 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 statutory-basis financial statements taken as a whole. The accompanying supplemental investment disclosures, as of and for the year ended December 31, 2007, 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 and Associates, LLP

April 10, 2008

SMART and Associates, LLP
Certified Public Accountants
80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | www.smartgrp.com

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Admitted Assets, Liabilities and Members' Equity

December 31, 2007 and 2006

	2007	2006
ADMITTED ASSETS		
Short-term investments at amortized cost	$ 10,400,504	$ 9,940,008
Cash and cash equivalents	4,055,218	4,101,625
Due from related parties	122,599	236,967
Premiums receivable	32,819	12,239
Total admitted assets	$ 14,611,140	$ 14,290,839
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Unearned premiums	$ 5,788,619	$ 6,514,591
Claims/drafts payable	505,241	903,504
Unpaid losses and loss adjustment expenses	2,136,300	2,071,323
Unearned advanced premiums	291,083	321,562
Postretirement benefits payable	942,115	1,031,520
Pension liability	43,109	645,235
Other liabilities	252,803	284,977
Total liabilities	9,959,270	11,772,712
Members' equity	4,651,870	2,518,127
Total liabilities and members' equity	$ 14,611,140	$ 14,290,839

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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Statutory Statements of Operations and Members' Equity (Deficit)

For the years ended December 31, 2007 and 2006

	2007	2006
Underwriting:		
Premiums earned	$ 12,216,500	$ 13,605,581
Less:		
Losses incurred	5,265,187	6,148,865
Loss adjustment expenses incurred	1,304,791	1,018,280
Underwriting and other expenses incurred	4,423,870	4,635,423
	10,993,848	11,802,568
Net underwriting gain	1,222,652	1,803,013
Investment income	571,917	510,596
Other income (expense):		
Premiums receivable charged off	(2,702)	(9,961)
Other (expense) income	(2,815)	4,662
Other expense, net	(5,517)	(5,299)
Net income	1,789,052	2,308,310
Members' equity (deficit), beginning of year	2,518,127	(205,069)
Change in nonadmitted assets	(10,281)	(50,036)
Change in additional minimum pension liability	318,154	461,126
Refunds/assessments charged-off	36,818	3,796
Members' equity, end of year	$ 4,651,870	$ 2,518,127

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Premiums collected, net	$ 11,438,876	$ 13,077,827
Net investment income	571,917	510,595
Miscellaneous income	(5,518)	(5,300)
Benefit and loss related payments	(5,250,340)	(6,753,387)
Commissions, expenses paid and aggregate write-ins for deductions	(5,613,377)	(6,022,115)
Net cash provided by operating activities	1,141,558	807,620
Cash flows from financing and other miscellaneous activities:		
Other cash applied	(727,469)	(139,784)
Net cash used in financing and other miscellaneous activities	(727,469)	(139,784)
Net increase in cash, cash equivalents and short-term investments	414,089	667,836
Cash, cash equivalents and short-term investments, beginning of year	14,041,633	13,373,797
Cash, cash equivalents and short-term investments, end of year	$ 14,455,722	$ 14,041,633

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

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements

For the years ended December 31, 2007

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

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, which generally approximates 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.

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' equity.
- 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.

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. Investments:

Short-term investments as of December 31, 2007, the amortized cost and NAIC market value of short-term investments in fixed maturities are as follows. NAIC market value approximates estimated fair value.

2007	NAIC carrying value	Gross unrealized gains	Gross unrealized losses	NAIC market value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,549,177	$ -	$ 13,038	$ 3,536,139
Commercial paper	6,851,328		30,068	6,821,260
Total short-term investments	$ 10,400,505	$ -	$ 43,106	$ 10,357,399

2006	Amortized cost	Gross unrealized gains	Gross unrealized losses	NAIC market value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 9,940,008	$ -	$ 53,094	$ 9,886,914

All fixed maturity investments at December 31, 2007, have contractual maturity dates within one year.

Proceeds from the sales of short-term investments during the year ended December 31, 2007 were $21,572,000. Gross gains of $531,380 were realized on those sales during 2007.

The components of net investment income earned for the years ended December 31, 2007 and 2006 are as follows:

	2007	2005
Short-term investments	$ 476,056	$ 427,034
Cash	95,861	83,562
Investment income	$ 571,917	$ 510,596

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 Prudential Retirement Insurance and Annuity Company 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. Assets, liabilities and expenses of the plan are allocated to the Facility based on its underwriting activity. The allocation percentage used for the Facility was 89.36% in 2007 and 89.59% in 2006.

The following table sets forth the year-end status of the plan:

	2007	2006
Change in projected benefit obligation:		
Benefit obligation at January 1	$ 9,024,042	$ 8,968,928
Service cost	183,858	197,895
Interest cost	541,984	493,638
Actuarial (gain) loss	(285,803)	(397,430)
Benefits paid	(266,920)	(238,989)
Benefit obligation at December 31	9,197,161	9,024,042
Change in plan assets:		
Fair value of plan assets at January 1	7,050,733	6,306,500
Actual return on plan assets	532,751	473,103
Employer contributions	565,459	510,119
Benefits paid	(266,920)	(238,989)
Fair value of plan assets at December 31	7,882,023	7,050,733
Funded status	(1,315,138)	(1,973,309)
Unrecognized net actuarial loss	1,266,896	1,608,223
Accrued benefit cost	$ (48,242)	$ (365,086)

5. Employee Benefits, continued:

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

	2007	2006
Discount rate	6.50%	6.00%
Rate of compensation increase	4.00%	3.50%

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

	2007	2006
Components of net periodic pension cost:		
Service cost	$ 183,858	$ 197,895
Interest cost	541,984	493,638
Expected return on plan assets	(576,172)	(503,639)
Amount of loss recognized	98,945	169,273
Net periodic pension cost	$ 248,615	$ 357,167

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

	2007	2006
Discount rate	6.00%	5.50%
Expected long-term rate of return	8.00%	8.00%
Weighted average rate of compensation increase	3.50%	3.25%

The accumulated benefit obligation for the plan was $7,850,949 and $7,770,941 at December 31, 2007 and 2006, respectively.

Accrued benefit cost was $48,242 and $365,086 at December 31, 2007 and 2006, 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, 2007 and 2006, the plan had an AML of $-0- and $355,122, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML are recorded directly to members' equity. The decrease in the AML during 2007 and 2006, respectively, was $355,122 and $514,707.

5. Employee Benefits, continued:

The benefit obligation excludes liabilities for nonvested employees, which were $27,871 and $11,355 at December 31, 2007 and 2006, respectively.

The expected long-term rate of return on assets assumption is 8.00%. 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, 2007 and 2006, by asset category are as follows:

	2007	2006
Asset category:		
Equity securities	62.0%	61.7%
Debt securities	36.4%	36.4%
Cash	1.6%	1.9%

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.

Contributions to the plan are expected to be $569,838 in 2008.

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

2008	$ 321,000
2009	343,000
2010	372,000
2011	449,000
2012	518,000
2013-2017	3,440,000

5. Employee Benefits, continued:

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 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, 2007 and 2006:

	2007	2006
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	$ 266,723	$ 446,038
Accumulated postretirement benefit obligation in excess of plan assets	266,723	446,038
Unrecognized gain	653,444	538,968
Unrecognized prior service	134,125	166,372
Accrued postretirement benefit cost	$ 1,054,292	$ 1,151,378

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2007 and 2006:

	2007	2006
Accrued postretirement benefit cost at January 1	$ 1,151,378	$ 1,230,186
Benefit income for year	(70,015)	(47,650)
Benefits paid during year	(27,071)	(31,158)
Accrued postretirement benefit cost at December 31	$ 1,054,292	$ 1,151,378

5. Employee Benefits, continued:

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

	2007	2006
Discount rate	6.50%	6.00%
Rate of compensation increase	4.00%	3.50%

Net periodic postretirement benefit cost for 2007 and 2006 includes the following components:

	2007	2006
Service cost/eligibility cost	$ -	$ -
Interest cost	16,433	25,189
Amortization of gain	(32,247)	(32,247)
Amortization of prior service cost	(54,201)	(40,592)
Net periodic postretirement benefit cost	$ (70,015)	$ (47,650)

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

	2007	2006
Discount rate	6.00%	5.50%
Weighted average rate of compensation increase	3.50%	3.25%

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 12% and 10% were assumed for 2007 and 2006, respectively. These rate increases were assumed to decrease through 2014 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, 2007 by $18,692 and net periodic postretirement benefit cost for the year ended December 31, 2007 by $1,125.

5. Employee Benefits, continued:

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

2008	$ 31,771
2009	29,544
2010	26,332
2011	30,298
2012	31,900
2013-2017	187,659

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 $104,804 and $102,426 in 2007 and 2006, respectively.

6. Liability for Unpaid Losses and Loss Adjustment Expenses:

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

	2007	2006
Balance, January 1	$ 2,071,323	$ 3,026,055
Incurred related to:		
Current year	6,537,401	7,958,189
Prior years	32,577	(791,044)
Total incurred	6,569,978	7,167,145
Paid related to:		
Current year	4,601,863	6,033,908
Prior years	1,903,138	2,087,969
Total paid	6,505,001	8,121,877
Balance, December 31	$ 2,136,300	$ 2,071,323

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 (decreased) by $32,577 and ($791,044) in 2007 and 2006, respectively.

7. Lease Commitments:

The Facility conducts its operations in leased premises under a lease that will expire April 30, 2008. At December 31, 2007, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:	
2008	$ 80,246
Total payments	$ 80,246

Total rental expense was $276,909 and $271,358 in 2007 and 2006, 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.

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 2007 and 2006, $722,991 and $864,717, respectively, was paid on behalf of the Insurance Placement Facility of Delaware and $469,499, and $1,018,288, respectively, was paid on behalf of the West Virginia Essential Property Insurance Association. At December 31, 2007 and 2006, $72,344 and $173,869, respectively, is due from the Insurance Placement Facility of Delaware and $50,255 and $63,098, 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, 2007 and 2006:

	2007	
	Net income	Members' equity
As reported in the Annual Statement	$ 1,860,911	$ 4,695,069
2007 non-admitted asset adjustment	-	(43,199)
2007 underwriting and other expense adjustment	(71,859)	-
As reported herein	$ 1,789,052	$ 4,651,870

The underwriting and other expense adjustment relates to the accounting for other post retirement benefits discussed in Note 5.

9. Annual Statement Reconciliation, continued:

	2006	
	Net income	Members' deficit
As reported in the Annual Statement	$ 2,157,262	$ 2,518,127
2006 underwriting and other expense adjustment	151,048	-
As reported herein	$ 2,308,310	$ 2,518,127

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, 2007

Total admitted assets at December 31, 2007	$14,611,140

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, 2007

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.

Schedule 2

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Summary of Investments

December 31, 2007

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
Cash, cash equivalents and short-term investments	$ 14,455,722	100.00%	$ 14,455,722	100.00%
Total invested assets	$ 14,455,722	100.00%	$ 14,455,722	100.00%

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

See accompanying independent auditors' report.

Schedule 3

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Reinsurance Interrogatories

December 31, 2007

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)

INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA
Reinsurance Interrogatories, continued
December 31, 2007

Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62—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)

SMART AND ASSOCIATES, LLP

Board of Directors
Insurance Placement Facility of Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory basis financial statements of Insurance Placement Facility of Pennsylvania (the "Facility") for the year ended December 31, 2007 and have issued our report thereon dated April 10, 2008. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Facility 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.

b. The engagement partner is a certified public accountant and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Facility intends to file the audited statutory financial statements and our report thereon with the Insurance Department of the Commonwealth of Pennsylvania and that the insurance commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Facility.

While 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 Facility and 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, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the respective department of insurance. 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 misstatements resulting from fraud.

Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement caused by fraud. In addition, an audit does not address the possibility that material misstatements resulting from 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 have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Facility to adopt sound accounting policies, to maintain an adequate and effective system of accounts and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditors' report.

d. We will retain the workpapers prepared in the conduct of our audit no longer than seven years, and on instructions from the Facility, will make them available for review by the Insurance Department of the Commonwealth of Pennsylvania.

e. This is our third year as auditor of the Facility and the engagement partner is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Insurance Department of the Commonwealth of Pennsylvania and is not intended to be and should not be used by anyone other than these specified parties.

Smart and Associates, LLP

April 10, 2008

SMART AND ASSOCIATES, LLP

April 10, 2008

To the Board of Directors
Insurance Placement Facility of Pennsylvania

We have audited the financial statements of the Insurance Placement Facility of Pennsylvania (the "Facility") for the year ended December 31, 2007, and have issued our report thereon dated April 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Independence

Professional standards suggest that we communicate with you regarding all relationships between Smart and Associates, LLP ("SMART") and the Facility that, in our professional judgment, may reasonable be thought to bear in our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since January 1, 2007.

We are not aware of any relationships between SMART and the Facility that, in our professional judgment, may reasonably be thought to bear on our independence.

We hereby confirm that as of April 10, 2008, we are independent accountants with respect to the Facility.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 19, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the statutory-basis financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting practices permitted or prescribed by the Insurance Department of the Commonwealth of Pennsylvania. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit in March after management prepared the Facility's yearend financial statements. Our audit was primarily substantive in nature with a focus invested assets, reserves, premiums and claims. Our materiality thresholds were based on the Facility's total assets as of December 31, 2007.

SMART and Associates, LLP
Certified Public Accountants
80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | www.smartgrp.com

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Facility are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the liability for pension and other post retirement benefits is determined using actuarial methods with calculations based on expected return on plan assets, expected compensation rate increases, discount rates, and future expected benefit payments. We evaluated the key assumptions used to develop the liability for pension and other post retirement benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and of the Facility and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Smart and Associates, LLP

Smart and Associates, LLP