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REPORT OF THE ANNUAL MEETING

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April 24, 2019



**Insurance Placement Facility of Pennsylvania**

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

**Board of Directors**

**2018- 2019**

<b>Ms. Nicole Ford, Chairperson .....</b>	<b>Allstate Insurance Company</b>
<b>Ms. Marybeth Baxter .....</b>	<b>Nationwide Insurance Company</b>
<b>Mr. Dan Harrington .....</b>	<b>The Travelers Companies, Inc.</b>
<b>Ms. Jennifer Koebe .....</b>	<b>Erie Insurance Group</b>
<b>Ms. Patricia Quinn .....</b>	<b>CNA</b>
<b>Ms. Blaine Stanley .....</b>	<b>Chubb Group</b>
<b>Ms. Marci Thomas .....</b>	<b>State Farm Insurance Companies</b>

<b>Mr. Daniel M. Taylor, Jr., Esq., General Counsel .....</b>	<b>Margolis Edelstein, Pittsburgh</b>
<b>Mr. John M. Ogle, President .....</b>	<b>Insurance Placement Facility of Pennsylvania</b>



AGENDA FOR THE ANNUAL MEETING  
INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

April 24, 2019 - 1:30 P.M.

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1. Call to Order - 1:30 P.M. - Ms. Nicole Ford, Chairperson, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 23, 2018
3. Ratification of Board, Officer's and Committee Actions
4. Report of the Chairman
5. Report of the President
6. Treasurer's Report
7. New Business
8. Election of Board of Directors 2019 - 2020

Nominations are:

- 1) Allstate Insurance Company
  - 2) Chubb Group
  - 3) CNA
  - 4) Erie Insurance Group
  - 5) Nationwide Insurance Companies
  - 6) State Farm Insurance Companies
  - 7) The Travelers Companies, Inc.
9. Adjournment of Meeting



Insurance Placement Facility of Pennsylvania  
Minutes of the Annual Meeting  
April 24, 2019  
Administrative Offices of the Facility  
1:30 p.m.  
190 N. Independence Mall West  
Philadelphia, PA

The Annual Meeting of the Insurance Placement Facility of Pennsylvania was called to order with Chairperson Nicole Ford presiding. President John M. Ogle served as secretary and reported a quorum was present with 161 companies or 72.49% of the membership represented in person or by proxy.

Upon motion duly made, seconded and carried, the Minutes of the April 23, 2018 Annual Meeting were approved as distributed.

A motion to ratify the actions of the Board of Directors and the Officers for the 2018-2019 term was duly made, seconded and carried.

Motions were made, seconded and carried to waive the reading of the Chairman's report, the President's report and the Treasurer's report, as all three reports were included in pre meeting materials and will be incorporated into the Annual Report. The reports were accepted as presented.

The President noted the 2018 financial audit report provided by the accounting firm of Mazars, accepted by the Audit Committee and as reported to Board of Directors will be made part of the Annual Report.

With no new business, Nominating Committee chairperson Ms. Patricia Quinn, placed into nomination the following Member Companies to serve on the Board of Directors for the 2019-2020 term.

Allstate Insurance Company  
Chubb  
CNA  
Erie Insurance Group  
Nationwide Insurance Companies  
State Farm Insurance Companies  
The Travelers Company, Inc.

There being no other nominations, it was moved, seconded and carried to close nominations. Chairperson Ford requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 72.23% of the membership representing 157 companies, indicated their intention to cast ballots either in person or by proxy in favor of the nominated slate. Therefore, upon motion duly made seconded and carried, the slate was declared elected.

The next annual meeting was set for April 2020.

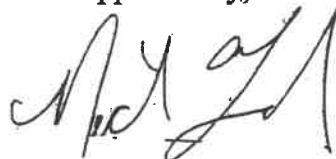
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Respectfully submitted by,



Mr. John M. Ogle, CPCU  
President

Approved by,



Ms. Nicole Ford  
Chairperson of Board



Report of the Chairperson

Ms. Nicole Ford

51<sup>st</sup> Annual Meeting

Of the Members of the

Insurance Placement Facility of Pennsylvania

April 24, 2019

Welcome to the 51<sup>st</sup> Annual Meeting of the Insurance Placement Facility of Pennsylvania. As we move past five decades in operation, I am pleased to report that the Facility continues to meet its primary purpose of making basic property insurance available to those property owners who have been unable to secure such coverage in the voluntary marketplace.

There are a wide range of companies doing business in Pennsylvania, which is reflected in the State's viable and very competitive insurance marketplace. With so many companies active in the marketplace, it is not a surprise that the FAIR Plan has continued to see a decline in its volume.

Despite a competitive voluntary market and lower volumes, the Pennsylvania FAIR Plan receives a daily flow of new applications and payments from all corners of the Commonwealth. The FAIR Plan has its greatest volume of business centered around the city of Philadelphia. Despite its southeastern urban tilt, the Plan still has policies in force in every county and most every City or Borough in the Commonwealth.

Over the past decades, the Pennsylvania FAIR Plan has recorded years of both a surplus and a deficit. I am pleased to report that in 2018 the Pennsylvania FAIR Plan recorded a Net Result of Operations surplus of \$273,842.

I am also pleased to report that our new policy and claims software program has begun to make a positive impact on financial reports. For the second year in a row, our General Expenses declined, down almost 20% from 2017. Understandably, not all General Expenses are impacted by our policy and claim management software, but a smaller headcount doing the same or more work goes a long way toward reducing our overall costs.

There were many individuals involved in the day to day details of bringing that software and accounting programs online and their efforts are greatly appreciated.

In closing, I would like to thank the Pennsylvania Insurance Department for all of its support to the FAIR Plan operation. We are very fortunate to have such an attentive Department of Insurance staffed with some very dedicated and talented individuals.

In addition, my appreciation also goes out to Mr. John M. Ogle and the members of his Staff. Their dedication to the FAIR Plan is evident in so many ways and I think I speak for all the Board members when I say we take great comfort knowing the operation is in such capable hands.

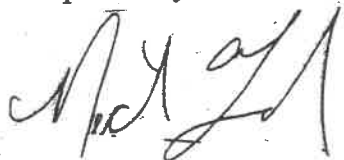
I would also like to recognize the contributions of our General Counsel Mr. Daniel M. Taylor. Mr. Taylor's timely and well thought out advice has served the Board well over the years and 2018 was no exception.

I would also be remiss if I did not acknowledge all the members of our committees and in particular our Committee Chairman. Your readiness to serve and to offer the Staff guidance on any number of assorted issues goes a long way in making the Pennsylvania FAIR Plan a well-run operation.

Every year it seems the Board of Directors or the FAIR Plan staff loses some very talented individuals to other assignments or retirement. 2018 was no exception. To all of those who have moved on, I would like to offer my personal thanks and gratitude for all the years of service to the FAIR Plan.

Lastly, I would like to thank all of my fellow Board members for their support and dedication. I realize that many travel considerable distance and sometimes under less than ideal circumstances. During our meetings, I am constantly amazed at your knowledge and your willingness to take time from your busy schedules to assist in the oversight of the Pennsylvania FAIR Plan. For all of your efforts, I am indeed grateful.

Respectively submitted,



Nicole Ford  
Chairman of the Board

Report of the President  
John M. Ogle

51<sup>st</sup> Annual Meeting  
Of the Members of the  
Insurance Placement Facility of Pennsylvania  
April 24, 2019

Good afternoon and welcome to the 51<sup>st</sup> Annual Meeting of the Insurance Placement Facility of Pennsylvania.

For nearly a decade, we have seen a steady decline in FAIR Plan business and 2018 was no exception. In 2018, Policies Issued fell 5.5% and Premiums Written declined by almost 11.5%. The decline is not exclusive to the Pennsylvania FAIR Plan as many residual markets nationwide are also seeing significant depopulation. As premiums and policy counts decline however, the hoped for corresponding decline in Claim activity has not necessarily followed the same path. Losses Incurred rose by 10.9% and Losses Reported increased by almost 40%.

Although the track of Claims Reported does not often directly match the direction of the Policy Issued track, over time there is usually some commonality. Recently, that commonality began to appear, albeit in a jagged, less pronounced, manner. In 2018 however, Losses Reported exceeded the counts recorded in every year since 2013.

For the year, a 7.3% drop in Premiums Earned and an increase in Losses Reported was offset by nearly a 20% drop in General Expenses yielding an Underwriting Surplus of \$187,649. Taking into account Investment Income and Other Income and Expenses, the Pennsylvania FAIR Plan finished 2018 with a Net Result of Operations surplus of \$273,842.

Over the decades the Pennsylvania FAIR Plan has remained a small niche market for those unable to secure coverage in the normal marketplace. Annual Premiums Written exceeded \$14,000,000 in only one year and annual policy counts have only once been as high as 110,000. Despite its limited size, the FAIR Plan has still paid out more than \$342,000,000 in Losses.

With greater use of electronic storage and transmission, it's not a surprise to see the cost of cyber security increase as well. I am pleased to report, our annual cyber audit provided us with a positive review in what seems to be a never ending struggle to remain secure.

Change not only impacts business, it also impacts people. Whether it's Board or Committee members, Insurance Department senior staff or the FAIR Plan's own staff, we have seen many friends and colleagues move on to their next challenge. To all, I would like to express my thanks for their years of dedicated service.

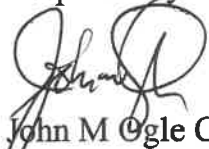
In closing, I would also like to thank the members of the FAIR Plan management staff and our employees for all of their efforts. Much of what is accomplished by the FAIR Plan is done so because of the efforts of many individuals working for the betterment of all.

I would also like to thank General Counsel Daniel Taylor for his timely and sound legal advice throughout the year. Today's working and social environments have changed so drastically from just a few years ago, but Dan has managed to steer the organization clear of the many potential pitfalls.

I also think it is appropriate to thank the Pennsylvania Insurance Department. Time does not permit me to personally thank all those folks inside the Department who have lent us their knowledge and expertise, but suffice it to say, their efforts are greatly appreciated.

Lastly, I would like to thank all the members of the Board and its various Committees. Your interest, support and enthusiasm go a long way in running this organization. Whether it has been an email, a phone conversation or a meeting, members repeatedly go to great lengths to be engaged in the operation of the Plan. Your efforts and support are greatly appreciated.

Respectively Submitted



John M Ogle CPCU  
President

# INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

## PENNSYLVANIA FAIR PLAN

### Treasurer's Report

December 31, 2018

#### **ASSETS**

Cash in Bank	1,039,176.33
Investments, Short term at cost plus accumulated discount	5,053,997.71
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	49,885.20
Other Receivables	134,702.85
Equipment *	0.00
 Total Assets	 <u><u>6,277,762.09</u></u>

#### **LIABILITIES AND MEMBERS' EQUITY**

Unearned Premiums	3,071,806.00
Unearned Advance Premiums	219,247.22
Outstanding Losses	405,750.00
Outstanding Loss Adjustment Expenses	137,459.00
Accrued Expenses	146,847.00
Unpaid Post Retirement Benefits	2,801,638.00
Unpaid Pension	1,443,272.00
Accounts Payable	81,292.18
Claims Checks Payable	283,190.07
Unpaid Premium Tax	0.00
 Total Liabilities	 <u>8,590,501.47</u>
Members' Equity (Deficit)	(2,312,739.38)
 Total Liabilities and Members' Equity	 <u><u>6,277,762.09</u></u>

Respectfully Submitted,

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RoseMarie McDonald  
Accounting Manager

\* E. D. P. Equipment



**Insurance Placement  
Facility of Pennsylvania  
Statutory Financial Statements and  
Supplemental Schedules  
December 31, 2018 and 2017**

# Insurance Placement Facility of Pennsylvania

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*December 31, 2018 and 2017*

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## *Independent Auditors' Report*

To the Board of Directors  
Insurance Placement Facility of Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Insurance Placement Facility of Pennsylvania, which comprise the statutory statements of admitted assets, liabilities, and members' deficit as of December 31, 2018 and 2017, and the related statutory statements of operations and members' deficit and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' deficit of the Insurance Placement Facility of Pennsylvania as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by the Insurance Placement Facility of Pennsylvania in accordance with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Department of the Commonwealth of Pennsylvania. Our opinion is not modified with respect to this matter.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The investment risk interrogatories, summary investment schedule, and reinsurance interrogatories are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Restriction on Use**

Our report is intended solely for the information and use of the board of directors and management of the Insurance Placement Facility of Pennsylvania and 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.

*Mazars USA LLP*

April 19, 2019

## Insurance Placement Facility of Pennsylvania

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

	<u>2018</u>	<u>2017</u>
<b>Admitted Assets</b>		
Cash and cash equivalents	\$ 6,093,175	\$ 6,837,058
Due from related parties	134,702	38,557
Premiums receivable	<u>49,885</u>	<u>48,806</u>
Total admitted assets	<u>\$ 6,277,762</u>	<u>\$ 6,924,421</u>
<b>Liabilities and Members' Deficit</b>		
<b>Liabilities</b>		
Unearned premiums	\$ 3,071,806	\$ 3,554,320
Unpaid losses and loss adjustment expenses	543,209	655,578
Claims and drafts payable	283,190	381,259
Advance premiums	219,247	263,084
Postretirement benefits payable	2,801,638	3,481,303
Pension liability	1,443,272	1,411,510
Other liabilities	<u>228,140</u>	<u>278,968</u>
Total liabilities	8,590,502	10,026,022
Members' deficit	<u>(2,312,740)</u>	<u>(3,101,601)</u>
Total liabilities and members' deficit	<u>\$ 6,277,762</u>	<u>\$ 6,924,421</u>

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

## Insurance Placement Facility of Pennsylvania

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### *Statutory Statements of Operations and Members' Deficit* *Years Ended December 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
Underwriting:		
Premiums earned	<u>\$ 6,697,868</u>	<u>\$ 7,225,507</u>
Losses incurred	2,042,107	1,841,713
Loss adjustment expenses incurred	978,895	707,576
Underwriting and other expenses incurred	<u>3,489,218</u>	<u>4,359,075</u>
	<u>6,510,220</u>	<u>6,908,364</u>
Net underwriting gain	<u>187,648</u>	<u>317,143</u>
Interest income	<u>89,186</u>	<u>42,692</u>
Other income (expense):		
Premium receivable charged off	(4,788)	(762)
Other income (expense)	<u>1,795</u>	<u>(672)</u>
Other expense, net	<u>(2,993)</u>	<u>(1,434)</u>
Net income	273,841	358,401
Members' deficit, beginning of year	(3,101,601)	(4,975,131)
Change in nonadmitted assets	16,407	41,970
Change in pension and postretirement benefits liability	437,139	1,471,043
Refunds/assessments recovered	<u>61,474</u>	<u>2,116</u>
Members' deficit, end of year	<u>\$ (2,312,740)</u>	<u>\$ (3,101,601)</u>

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

## Insurance Placement Facility of Pennsylvania

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### *Statutory Statements of Cash Flows*

*Years Ended December 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
Cash from operations		
Premiums collected, net	\$ 6,171,889	\$ 7,030,089
Benefit and loss related payments	(2,160,868)	(2,587,789)
Commissions, expenses paid and aggregate write-ins for deductions	(4,446,476)	(5,239,347)
Interest income	89,186	42,692
Other expense	<u>(2,993)</u>	<u>(1,434)</u>
Net cash used in operations	<u>(349,262)</u>	<u>(755,789)</u>
Cash from financing and miscellaneous sources		
Other cash (applied) provided	<u>(394,621)</u>	<u>229,977</u>
Net decrease in cash and cash equivalents	(743,883)	(525,812)
Cash and cash equivalents, beginning of year	<u>6,837,058</u>	<u>7,362,870</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,093,175</u></u>	<u><u>\$ 6,837,058</u></u>

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

# **Insurance Placement Facility of Pennsylvania**

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## ***Notes to Statutory Financial Statements*** ***Years Ended December 31, 2018 and 2017***

### **1. Summary of Significant Accounting Policies**

The statutory financial statements of Insurance Placement Facility of Pennsylvania (the “Facility”) have been prepared, except as to form, in conformity with statutory accounting practices (“SAP”) as promulgated by the National Association of Insurance Commissioners (“NAIC”) and as prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania (the “Insurance Department”). The Facility does not have any prescribed or permitted accounting practices by the Insurance Department that are different than NAIC SAP. Such practices differ in certain respects from accounting principles generally accepted in the United States of America (“GAAP”). 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.

#### **Non-admitted Assets**

Certain assets designated as “non-admitted” are not reflected in the statutory statements of admitted assets, liabilities, and members’ equity. Non-admitted 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.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and other highly liquid temporary investments with maturities of one year or less from the acquisition date. 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. Interest earned on cash and equivalents was \$89,186 and \$42,692 at December 31, 2018 and 2017, respectively.

## **Insurance Placement Facility of Pennsylvania**

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### **Variations from Generally Accepted Accounting Principles**

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

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

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

### **Reclassifications**

Certain amounts in 2017 have been reclassified to conform to the 2018 presentation.

## **2. Nature of Operations**

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. All insurers (“Member Company”) doing any insurance business in Pennsylvania of the kinds covered by the Facility are required to be a member. Each member 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 services of certain employees with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association, both of which pay the Facility a portion of such joint expenses based on estimates of actual usage.

## **3. Federal Income Taxes**

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

## **4. Employee Benefits**

The Facility, in conjunction with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Principle Financial Group Pension Plan for Insurance Organizations (the “pension plan”), which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the Internal Revenue Code and is exempt from federal income taxes. The pension plan provides retirement income based upon employee average annual compensation and years of service. The pension plan is funded through the trustee by contributions to group annuity contracts.

The 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 retire at age 65 or older, the Facility pays the full cost of life insurance with coverage limited to \$10,000.

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

## Insurance Placement Facility of Pennsylvania

The Facility uses a December 31 measurement date for its pension and postretirement benefits 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 87.20% in 2018 and 88.71% in 2017.

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in projected benefit obligation:				
Projected benefit obligation at January 1	\$ 19,129,778	\$ 18,727,535	\$ 3,924,364	\$ 3,827,783
Service cost	234,939	203,552	51,841	27,826
Interest cost	654,329	688,221	119,629	145,107
Plan amendments	-	-	-	118,299
Actuarial (gain) loss	(1,381,767)	187,451	(774,431)	(80,639)
Benefits paid	(742,281)	(676,981)	(108,516)	(114,012)
Projected benefit obligation at December 31	<u>\$ 17,894,998</u>	<u>\$ 19,129,778</u>	<u>\$ 3,212,887</u>	<u>\$ 3,924,364</u>
	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in plan assets:				
Fair value of plan assets at January 1	\$ 17,538,627	\$ 15,382,416	\$ -	\$ -
Actual return on plan assets	(1,072,224)	2,233,192	-	-
Employer contributions	515,748	600,000	108,516	114,012
Benefits paid	(742,281)	(676,981)	(108,516)	(114,012)
Fair value of plan assets at December 31	<u>\$ 16,239,870</u>	<u>\$ 17,538,627</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of unassigned surplus:				
Funded status	\$ (1,655,128)	\$ (1,591,151)	\$ (3,212,887)	\$ (3,924,364)
Unrecognized net actuarial loss	3,429,701	2,969,701	365,201	1,193,671
Unrecognized prior service cost	4,984	7,249	108,591	164,102
Prepaid assets or (accrued) liabilities in unassigned surplus	<u>\$ 1,779,557</u>	<u>\$ 1,385,799</u>	<u>\$ (2,739,095)</u>	<u>\$ (2,566,591)</u>
	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$ 234,939	\$ 203,552	\$ 51,841	\$ 27,826
Interest cost	654,329	688,221	119,629	145,107
Expected return on plan assets	(956,008)	(840,827)	-	-
Amount of prior service cost recognized	2,265	2,265	30,176	8,166
Amount of prior non-vested liability recognized	-	-	25,335	32,071
Amount of loss recognized	186,465	341,639	54,039	113,629
Net periodic benefit cost	<u>\$ 121,990</u>	<u>\$ 394,850</u>	<u>\$ 281,020</u>	<u>\$ 326,799</u>



## Insurance Placement Facility of Pennsylvania

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

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

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

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

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

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

The expected long-term rate of return on assets assumption is 5.5%. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The pension plan's weighted average asset allocations at December 31, 2018 and 2017, by asset category are as follows:

	2018	2017
Asset category:		
Equity securities	31.8%	37.3%
Debt securities	61.3%	57.0%
Real estate	5.1%	4.9%
Cash	1.8%	0.8%

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.

## Insurance Placement Facility of Pennsylvania

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The plan's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, Fair Value Measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SSAP No. 100 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in the methodologies used at December 31, 2018 and 2017.

Pooled Separate Accounts: Investments in pooled separate accounts are valued at fair value, based on the applicable percentage of net assets of the pooled separate accounts as of the measurement date, as determined by Principal. In determining fair value, Principal utilizes valuations calculated for the pooled separate accounts. The pooled separate accounts value securities and other financial instruments on a fair value basis of accounting. The pooled separate accounts invest in domestic and foreign stocks, mutual funds, commercial paper and money market funds. The fair values of these investments are based on quoted prices or other observable inputs and are used by Principal in determining the fair value of the pooled separate accounts. The fair value of the Plan's investments in pooled separate accounts generally represents the amount the Plan would expect to receive if it were to liquidate its investments.

Partnerships/Joint Venture Interests: Investments in investment partnerships/joint venture interests are valued at fair value based on the applicable percentage ownership of the investment partnerships'/joint ventures' net assets as of the measurement date, as determined by the Plan. In determining fair value, the Plan utilizes valuations provided by the investment partnerships/joint ventures. The investment partnerships/joint ventures value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the investment partnerships/joint ventures, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships/joint ventures and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

## Insurance Placement Facility of Pennsylvania

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Plan's investments in investment partnerships/joint ventures generally represents the amount the Plan would expect to receive if it were to liquidate its investment in the investment partnerships/joint ventures.

**Managed Accounts:** Managed accounts that hold individual investments are valued at the closing price of shares for domestic and foreign stocks.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes that its valuation method is appropriate and consistent with those of other market participants, the use of a different methodology to determine the fair value could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the gross assets of the Plan as of December 31, 2018 and 2017. The Facility, Insurance Placement Facility of Delaware, and West Virginia Essential Property Insurance Association have a total interest in Plan assets of approximately 1.60% and 1.51% as of December 31, 2018 and 2017, respectively.

	Level 1	Level 2	Level 3	Total
<b>December 31, 2018</b>				
Managed accounts				
Small cap equity	\$ 30,009,976	\$ -	\$ -	\$ 30,009,976
Mid cap equity	66,142,186	-	-	66,142,186
Large cap equity	207,543,874	-	-	207,543,874
Pooled separate accounts				
International equity	-	158,327,460	-	158,327,460
Fixed income	-	540,493,503	-	540,493,503
Cash	-	12,066,584	-	12,066,584
Partnerships/Joint venture interests				
Limited partnerships	-	-	135,955	135,955
Total assets at fair value	<u>\$ 303,696,036</u>	<u>\$ 710,887,547</u>	<u>\$ 135,955</u>	<u>\$ 1,014,719,538</u>
	Level 1	Level 2	Level 3	Total
<b>December 31, 2017</b>				
Managed accounts				
Small cap equity	\$ 41,946,886	\$ -	\$ -	\$ 41,946,886
Mid cap equity	87,359,596	-	-	87,359,596
Large cap equity	266,974,972	-	-	266,974,972
Pooled separate accounts				
International equity	-	191,000,252	-	191,000,252
Fixed income	-	571,455,288	-	571,455,288
Cash	-	5,659,503	-	5,659,503
Partnerships/Joint venture interests				
Limited partnerships	-	-	418,723	418,723
Total assets at fair value	<u>\$ 396,281,454</u>	<u>\$ 768,115,043</u>	<u>\$ 418,723</u>	<u>\$ 1,164,815,220</u>

## Insurance Placement Facility of Pennsylvania

Contributions to the pension and postretirement benefits plans are expected to be \$250,000 and \$149,053, in 2019.

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

	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2019	\$ 905,368	\$ 149,053
2020	971,251	162,974
2021	1,037,701	186,389
2022	1,075,611	196,618
2023	1,116,521	203,304
2024-2028	6,090,754	1,020,103

Flat annual contributions are made to retirees Health Reimbursement Accounts and the retiree is responsible for securing health insurance. Contributions are expected to grow with general inflation and are around 3%, but are not tied to health care trend rates.

The employees of the Facility are eligible to participate in the Insurance Company Supported Organization 401(k) Savings Plan, a defined contribution plan. The plan is administered by the Prudential Retirement Insurance and Annuity Company. Participation in the plan is voluntary. Employees are vested in employer contributions upon participation. Employees may contribute 1% to 75% of their annual compensation; not to exceed the maximum amount allowed by the Internal Revenue Service each plan year. The Facility matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Facility amounted to \$104,349 and \$102,700 in 2018 and 2017, respectively.

### 5. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 655,578	\$ 1,556,075
Incurred related to:		
Current year	2,705,387	2,670,161
Prior years	315,615	(120,872)
Total incurred	<u>3,021,002</u>	<u>2,549,289</u>
Paid related to:		
Current year	2,175,566	2,059,579
Prior years	957,805	1,390,207
Total paid	<u>3,133,371</u>	<u>3,449,786</u>
Balance, December 31	<u>\$ 543,209</u>	<u>\$ 655,578</u>

## **Insurance Placement Facility of Pennsylvania**

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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 in by \$315,615 and decreased by \$120,872 in 2018 and 2017, respectively. The (unfavorable)favorable loss reserve development during 2018 and 2017 is based on loss expense reserves settling for amounts different than those estimated and is not attributable to any specific event or occurrence. Paid amounts above are net of salvage and subrogation recoveries.

### **6. Lease Commitments**

The Facility signed a new 10.5-year lease effective May 1, 2015. The Facility has the option to renew its lease for an additional five year period. At December 31, 2018, minimum rental commitments under these noncancelable leases are as follows:

<u>Years Ending December 31,</u>	
2019	\$ 209,183
2020	213,231
2021	217,280
2022	221,329
2023	225,377
Thereafter	<u>423,763</u>
Total payments	<u>\$ 1,510,163</u>

Total rental expense was \$209,954 and \$209,895 in 2018 and 2017, respectively.

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

### **7. Related Party Transactions**

The Facility issues all checks for claims and other payables for the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association and is then reimbursed by these facilities. Throughout 2018 and 2017, \$1,246,656 and \$889,570, respectively, was paid on behalf of the Insurance Placement Facility of Delaware and \$438,928 and \$263,840, respectively, was paid on behalf of the West Virginia Essential Property Insurance Association. At December 31, 2018 and 2017, \$88,291 and \$38,557, respectively, is due from the Insurance Placement Facility of Delaware and \$46,411 and \$0, respectively, is due from the West Virginia Essential Property Insurance Association.

### **8. Electronic Data Processing Equipment and Software**

Electronic data processing (“EDP”) equipment and software are stated at cost. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to five years.

## Insurance Placement Facility of Pennsylvania

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EDP equipment and software consisted of the following:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 126,010	\$ 117,312
Software	<u>364,364</u>	<u>364,364</u>
	<u>490,374</u>	<u>481,676</u>
Less accumulated depreciation	(463,595)	(441,596)
Less nonadmitted asset	<u>(26,779)</u>	<u>(40,080)</u>
EDP equipment and software, net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was \$21,757 and \$100,474 for the years ended December 31, 2018 and 2017, respectively.

### 9. Annual Statement Reconciliation

There are no material differences between net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2018 and 2017.

### 10. Subsequent Events

The Facility has evaluated subsequent events through April 19, 2019, the date these financial statements were available for issuance.

## Insurance Placement Facility of Pennsylvania

### Investment Risk Interrogatories

December 31, 2018

Total admitted assets at December 31, 2018 \$ 6,277,762

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

## Insurance Placement Facility of Pennsylvania

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### *Summary Investment Schedule* *December 31, 2018*

<u>Investment Categories</u>	<u>Gross Investment Holdings*</u>		<u>Admitted Assets as Reported in the Annual Statement</u>	
Cash and cash equivalents	<u>\$ 6,093,175</u>	<u>100.00%</u>	<u>\$ 6,093,175</u>	<u>100.00%</u>
Total invested assets	<u>\$ 6,093,175</u>	<u>100.00%</u>	<u>\$ 6,093,175</u>	<u>100.00%</u>

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



## Insurance Placement Facility of Pennsylvania

### Reinsurance Interrogatories

December 31, 2018

Provided below are management's responses to certain reinsurance interrogatories required by NAIC Statutory Accounting Principles:

Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes ( ) No (X)

Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- (a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;
- (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- (c) Aggregate stop loss reinsurance coverage;
- (d) An unconditional or unilateral right by either or both parties to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes ( ) No (X)

Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes ( ) No (X)

Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R—Property and Casualty Reinsurance, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes ( ) No (X)





**Board of Directors  
Insurance Placement Facility of Pennsylvania**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Insurance Placement Facility of Pennsylvania (the "Facility") for the year ended December 31, 2018 and have issued our report thereon dated April 19, 2019. 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 and the Rules of Professional Conduct of the Pennsylvania State Board of Public Accountancy.
- b. The engagement partner is a certified public accountant and both the engagement partner and manager are experienced in auditing insurance entities. Members of the engagement team, most of whom have had experience in auditing insurance entities were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Facility intends to file its audited statutory financial statements and our report thereon with the Insurance Department of the Commonwealth of Pennsylvania ("the Insurance Department") and other state insurance departments in states in which the Facility is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory financial condition of the Facility.

Although we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Facility and the insurance commissioners should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, as well as the results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Insurance Department. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatement resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would be assessed differently by insurance commissioners.

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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.

The insurance commissioner should exercise due diligence to obtain whatever other information 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 until the Insurance Department has filed a Report of Examination covering 2018, but no longer than seven years. After notification to the Facility, we will make the working papers available for review by the Insurance Department at the offices of the insurer, at our offices, at the insurance department, or any other reasonable place designated by the insurance commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Insurance Department, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Insurance Department.
- e. The engagement partner has served in that capacity with respect to the Facility since 2017, is licensed by the Pennsylvania State Board of Public Accountancy and 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 Annual Financial Reporting Model Regulation Mode Rule (Regulation) 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 other state insurance departments and is not intended to be and should not be used for anyone other than these specified parties.

*Mazars USA LLP*

April 19, 2019



Board of Directors  
Insurance Placement Facility of Pennsylvania

In planning and performing our audit of the statutory financial statements of the Insurance Placement Facility of Pennsylvania (the "Facility") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider unremediated material weaknesses as previously defined as of December 31, 2018. However, unremediated material weaknesses may exist that were not identified.

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

*Mazars USA LLP*

April 19, 2019

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