



REPORT OF THE ANNUAL MEETING

April 21, 2004

Insurance Placement Facility of Delaware

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

Board of Directors

2003 - 2004

Mr. Karl M. Brondell, Chairman	State Farm Insurance Companies
Ms. Joanne K. Martyn, Vice Chairperson	Chubb Group of Insurance Companies
Mr. Christopher Crucitt	CNA
Ms. Susan A. Erney	The Harleysville Insurance Company
Mr. John D. Fillippo	ACE USA
Ms. Loretta G. Johnson	Nationwide Insurance Companies
Mr. Richard G. Kelley	Donegal Insurance Companies
Ms. Wendy Lyles	Allstate Insurance Company
Mr. William W. Martin	The Hartford
Mr. David A. McMillen	Westfield Insurance Companies
Mr. Douglas W. Waltz	Liberty Mutual Group
Mr. Samuel P. Gerace, Esq.	Jones, Gregg, Creehan & Gerace, LLP
Mr. John M. Ogle, General Manager	Insurance Placement Facility of Delaware

AGENDA FOR THE ANNUAL MEETING
INSURANCE PLACEMENT FACILITY OF DELAWARE

April 21, 2004 - 8:00 A. M.

1. Call to Order - 8:00 a.m. - Mr. Karl M. Brondell, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 23, 2003
3. Ratification of Board Action
4. Report of the Chairman
5. Report of the General Manager
6. Treasurer's Report
7. Other Business
8. Election of Board of Directors 2004-2005

Nominations are:

- 1) ACE USA
 - 2) Allstate Insurance Company
 - 3) Chubb Group of Insurance Companies
 - 4) CNA
 - 5) Donegal Insurance Companies
 - 6) Liberty Mutual Group
 - 7) Nationwide Insurance Companies
 - 8) State Farm Insurance Companies
 - 9) The Harleysville Insurance Companies
 - 10) The Hartford
 - 11) Westfield Insurance Companies
9. Adjournment of Meeting

Insurance Placement Facility of Delaware
Minutes of the Annual Meeting
April 21, 2004
Hilton Wilmington/Christiana Hotel
Newark, Delaware
8:00 a.m.

The Annual meeting of the Insurance Placement Facility of Delaware was called to order with Chairman Karl M. Brondell presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present or by proxy. Mr. Ogle reported that the attendees represented 76.73% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 23, 2003 Annual Meeting were approved as distributed.

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

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

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

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

ACE USA
Allstate Insurance Company
Chubb Group of Insurance Companies
CNA
Donegal Insurance Companies
Liberty Mutual Group
Nationwide Insurance Companies
State Farm Insurance Companies
The Harleysville Insurance Companies
The Hartford
Westfield Insurance Companies

There being no other nominations, it was moved, seconded and carried to close nominations. Chairman Brondell requested and received confirmation from the secretary that a sufficient

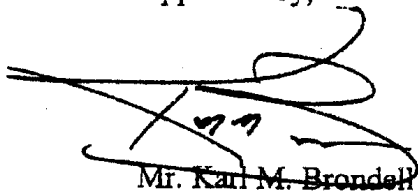
amount of ballots had been cast for the nominees. Mr. Ogle reported that 73.857% of the membership indicated their intention to cast ballots in person or by proxy in favor of the nominees.

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

The next annual meeting was set for April 2005.

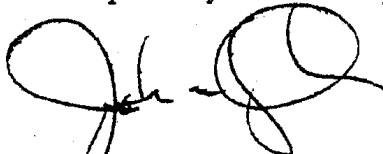
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. Karl M. Brondell
Chairman of the Board

Respectfully submitted by,



Mr. John M. Ogle
General Manager

Report of the Chairman
Mr. Karl M. Brondell
36th Annual Meeting of Members
of
The Insurance Placement Facility of Delaware
April 21, 2004
8:00 a.m.

Good afternoon and welcome to the 36th Annual Meeting of the Members of the Insurance Placement Facility of Delaware. As Chairman, it is my pleasure to report on the operations of the Association for the past year. While many of these areas will be covered in detail in the General Manager's Report, I am very pleased to report to you that the Association continues to fully meet its obligations as required by the relevant Delaware laws and regulations.

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

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

I believe it is important to note these efforts because it is through these employees that the Plan is able to meet its goals and objectives. This past year has been no exception and my hat is off to all those individuals.

In 2003, the Delaware Plan saw growth in New Applications as well as in number of Policies Issued. New Applications Received increased just over 91% to 1,480 while Total Policies Issued rose over 31% to 2,786. Losses Reported, not unexpectedly, also increased from 40 in 2002 to 79 reported in

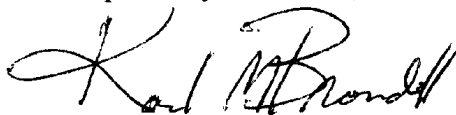
2003. Total Loss Incurred; however, declined 24% and the Pure Loss Ratio fell 40 points to 71.68%. The result translated to a year end Underwriting deficit of \$229,125 and a Net Result of Operations deficit of \$225,676.

During the year, the Delaware FAIR Plan continued to receive management and functional support from the Insurance Placement Facility of Pennsylvania. It is through this long term relationship that the Delaware FAIR Plan can provide the same high quality and professional service to all its Delaware policyholders, agents and member companies

Throughout the year, the organization experienced numerous changes to its Board and Governing Committees. To those individuals who have left us but gave so freely of their time and expertise, I would like to express my gratitude for their efforts. It is clear the insurance industry is made up of many talented and professional individuals and this organization is fortunate to have had many of those same people serving on our Board and Governing Committees.

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

Respectfully submitted,



Mr. Karl M. Brondell

Chairman

Report of the General Manager
Mr. John M. Ogle
Insurance Placement Facility of Delaware
Annual Meeting
April 21, 2004
Newark, DE
8:00 a.m.

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

This past year, we were reminded that the insurance business cycle that many said was dead, was in fact, alive and kicking. As the property insurance market tightened, the Delaware FAIR Plan saw a considerable influx of new business. It was just two and three years ago that the Delaware FAIR Plan issued some of its lowest policy counts since the early 1970's. Indeed, policy counts had been shrinking at a relatively steady rate since 1997. In 2003; however, policy counts grew by over 31% and New Business counts grew by more than 91%.

As New Business counts increased, so did the corresponding Underwriting Expenses. The Plan saw inspection expenses increase by nearly 69% while commission costs increased nearly 49% and postage costs rose just over 27%. Despite the increased business, the Plan maintained its customary high level of customer service. New Business Application processing standards were met in 11 consecutive months of 2003. Rating errors were well under standards and pending workloads never exceeded standard in any of the 12 months of 2003.

All in all, 2003 is best categorized as a year of uncertainty. Like all insurance companies, the Delaware FAIR Plan dealt with the changing Federal Terrorism legislative requirements and the revised methodology to account for retiree pension and health benefits. The Plan continued to review and study the uncertainties brought upon by the federal legislation known as Sarbanes-Oxley. More specific to the core of the business of the Delaware FAIR Plan, in 2003 the Plan saw up close the uncertainties of Hurricane Isabel as she teetered just off the mid-Atlantic coast with an expected track just west of Delaware bringing the highest winds on shore. In addition, the sudden interruption of electrical power, just days before the widespread blackout which impacted much of the Northeast, left us looking for the proverbial "other shoe".

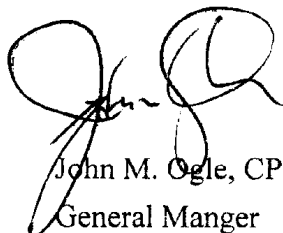
In the end, the good news was Hurricane Isabel did not strike a catastrophic blow and power was interrupted only temporarily, but the bad news was the Delaware FAIR Plan was again impacted by the large loss. For the second consecutive year the Plan recorded a deficit. Premiums Earned were \$496,291 while Losses Incurred totaled \$355,763 and Loss Adjustment Expense Incurred totaled \$57,714. With General Expenses topping \$311,939 a year end underwriting deficit of \$229,125 resulted. Taking into account Investment Income and Other Income and Expenses, the 2003 Net Result of Operations for the Delaware FAIR Plan was a deficit of \$225,676.

As we approach our 37th year of operation, the Plan remains in a specter of uncertainty. As the insurance marketplace again adjusts itself to the changing conditions of the marketplace, the impact on the FAIR Plan is unknown. Although the future remains cloudy, the Plan is prepared to meet the challenges that lie ahead. The Delaware FAIR Plan remains committed to operating a professional and efficient organization to service the property insurance industry as well as the insurance buying public.

In closing, I would like to thank General Counsel Gerace and his staff for their tireless efforts and attention to detail in assisting the Plan throughout the year. I would also like to thank the Delaware Insurance Department for their input and guidance throughout 2003.

The Delaware FAIR Plan is fortunate to have the contribution of many talented Board and Committee Members. I would like to extend my gratitude to each individual for contributing their expertise, advice and most of all, their support. Lastly, I would like to thank the individual employees, management and staff alike, for their dedication and commitment to the organization. It is because of their fine efforts that we can look back on a successful year and look forward to the challenges of the future.

Respectively,



John M. Ogle, CPCU
General Manger

INSURANCE PLACEMENT FACILITY OF DELAWARE

DELAWARE FAIR PLAN

Treasurer's Report

December 31, 2003

ASSETS

Cash in Bank	321,753.00
Investments, Short term at cost plus accumulated discount	150,923.54
Accrued Investment Income	0.00
Due from Participating Members	53,347.77
Premiums Receivable	2,783.79
Other Receivables	0.00
Prepaid Premium Tax	0.00
Equipment	0.00
	<hr/>
Total Assets	<u>528,808.10</u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	336,120.00
Unearned Advance Premiums	5,437.00
Outstanding Losses	125,250.00
Outstanding Loss Adjustment Expenses	12,200.00
Accrued Expenses	17,092.00
Unpaid Post Retirement Benefits	85,646.00
Accounts Payable	11,307.61
Claims Checks Payable	14,772.89
Unpaid Premium Tax	3,903.24
	<hr/>
Total Liabilities	611,728.74
Members' Equity (Deficit)	(82,920.64)
	<hr/>
Total Liabilities and Members' Equity	<u>528,808.10</u>

Respectfully Submitted,



Wayne A. Rieck



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Insurance Placement Facility of Delaware:

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' (deficit) equity of Insurance Placement Facility of Delaware (the Facility) as of December 31, 2003 and 2002, and the related statutory statements of operations and members' (deficit) equity and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 1 to the financial statements, the Facility prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of Delaware, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The Facility's liabilities exceeded its assets by \$78,578 at December 31, 2003. Such an amount, however, is recoverable from member companies (note 2).

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Insurance Placement Facility of Delaware as of December 31, 2003 and 2002, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' (deficit) equity of Insurance Placement Facility of Delaware as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in note 1.



Our audits were made for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The supplementary information included on the supplemental investment risk interrogatories in Schedule 1 and the summary of investments in Schedule 2 is presented for purposes of additional analysis and is not a required part of the basic statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

KPMG LLP

March 25, 2004

INSURANCE PLACEMENT FACILITY OF DELAWARE

Statutory Statements of Admitted Assets, Liabilities, and Members' (Deficit) Equity

December 31, 2003 and 2002

Admitted Assets	2003	2002
Cash	\$ 321,753	398,504
Short-term investments, at amortized cost which approximates market value	150,923	150,372
Assessments receivable	53,348	—
Premiums receivable	2,784	2,681
Total admitted assets	<u>\$ 528,808</u>	<u>551,557</u>
Liabilities and Members' (Deficit) Equity		
Liabilities:		
Unearned premiums	\$ 336,120	226,849
Due to related parties	14,773	30,074
Unpaid losses and loss adjustment expenses	137,450	68,344
Unearned advanced premiums	5,437	9,455
Postretirement benefits payable	43,296	31,539
Pension liability	38,007	33,671
Other liabilities	32,303	20,764
Total liabilities	<u>607,386</u>	<u>420,696</u>
Members' (deficit) equity	<u>(78,578)</u>	<u>130,861</u>
Total liabilities and members' (deficit) equity	<u>\$ 528,808</u>	<u>551,557</u>

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE
Statutory Statements of Operations and Members' (Deficit) Equity
Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Underwriting:		
Premiums earned	\$ 496,291	402,372
Less:		
Losses incurred	355,763	449,682
Loss adjustment expenses incurred	57,714	34,111
Underwriting and other expenses incurred	<u>279,541</u>	<u>251,928</u>
	693,018	735,721
Net underwriting loss	<u>(196,727)</u>	<u>(333,349)</u>
Net investment income	<u>551</u>	<u>3,899</u>
Other income (expense):		
Premiums/assessments receivable charged off	(1,572)	(645)
Other income (expense)	<u>4,470</u>	<u>(15)</u>
Other income (expense), net	<u>2,898</u>	<u>(660)</u>
Net loss	(193,278)	(330,110)
Members' equity, beginning of year	130,861	460,715
Change in nonadmitted assets	(2,445)	256
Refund to members	(513,716)	—
Member contributions	<u>500,000</u>	<u>—</u>
Members' (deficit) equity, end of year	<u>\$ (78,578)</u>	<u>130,861</u>

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Statutory Statements of Cash Flows
Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operations:		
Premiums collected, net	\$ 598,997	419,401
Loss and adjustment expenses paid (net of salvage and subrogation)	(359,672)	(397,522)
Underwriting expenses paid	(254,784)	(208,914)
Investment income, net	551	3,899
Premiums/assessments receivable charged off	(1,572)	(645)
Other income	4,470	(15)
Net cash used by operations	(12,010)	(183,796)
Cash flows used by financing and other miscellaneous sources:		
Refunds to members, net of contribution	(67,064)	—
Other, net	2,874	(1,795)
Net cash used by financing and other miscellaneous services	(64,190)	(1,795)
Net decrease in cash and short-term investments	(76,200)	(185,591)
Cash and short-term investments:		
Beginning of year	548,876	734,467
End of year	\$ 472,676	548,876

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

(1) Summary of Significant Accounting Policies

The statutory financial statements of Insurance Placement Facility of Delaware (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 State of Delaware.

The more significant accounting policies are as follows:

(a) *Premiums*

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

(b) *Commissions*

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

(c) *Nonadmitted Assets*

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

(d) *Unpaid Losses*

Unpaid losses and loss adjustment expenses are estimated based on losses reported and the Facility's past experience for losses incurred but not yet reported. Management believes that such provisions are adequate to cover the ultimate liability. However, such estimates could differ from the amounts ultimately paid when claims are settled. Subsequent changes in estimates are reflected in earnings currently.

(e) *Use of Estimates*

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

(f) *Variances from Generally Accepted Accounting Principles*

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

- Commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

- Certain assets designated as nonadmitted would be reflected in the statements of admitted assets, liabilities, and members' (deficit) equity.

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

(g) Statements of Cash Flows

For purposes of the statements of cash flows, short-term investments include investments with maturities at the time of acquisition of one year or less.

(2) General

The Facility was created by an act of Legislature of the State of Delaware (The Delaware Fair Plan Act) to make available basic property insurance against fire and other perils for residential and business properties located in the State. Each authorized insurance company in the State participates in the profits and losses of the Facility in the proportion that certain premiums written in the State 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 or refunds, if required. The members' deficit of \$78,578 at December 31, 2003 will ultimately be assessed to the participating companies.

The Facility shares office space and the service of certain employees with the Insurance Placement Facility of Pennsylvania and the West Virginia Essential Property Insurance Association, and pays 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 Pennsylvania and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Benefits Connection Group Pension Plan, which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the *Internal Revenue Code* and is exempt from federal income taxes. The pension plan is funded through the trustee by contributions to group annuity contracts with two insurance companies.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

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

	<u>2003</u>	<u>2002</u>
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 188,816	171,046
Service cost	6,391	5,487
Interest cost	14,378	11,982
Actuarial loss	37,966	5,460
Benefits paid	<u>(5,922)</u>	<u>(5,159)</u>
Benefit obligation at December 31	\$ <u>241,629</u>	<u>188,816</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 125,570	149,734
Actual return on plan assets	45,192	(19,005)
Employer contributions	1,512	—
Benefits paid	<u>(5,922)</u>	<u>(5,159)</u>
Fair value of plan assets at December 31	\$ <u>166,352</u>	<u>125,570</u>
Funded status	\$ (75,277)	(63,246)
Unrecognized net actuarial loss	<u>55,635</u>	<u>57,211</u>
	\$ <u>(19,642)</u>	<u>(6,035)</u>

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

	<u>2003</u>	<u>2002</u>
Components of net periodic pension cost:		
Service cost	\$ 6,391	5,487
Interest cost	14,378	11,982
Expected return on plan assets	(11,455)	(12,835)
Amortization of transition asset and other	<u>10,328</u>	<u>474</u>
Net periodic pension cost	\$ <u>19,642</u>	<u>5,108</u>
Weighted average assumptions:		
Discount rate	6.25 %	6.75 %
Expected long-term rate of return	8.50 %	9.00 %
Weighted average rate of compensation increase	3.50 %	3.50 %

An additional minimum pension liability is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2003 and 2002, the Facility had an additional minimum pension liability of \$18,365 and \$27,636, respectively. The change in the additional minimum pension liability was recorded in underwriting and other expenses in the accompanying statements of operations for both years.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

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 Benefit Connection Group 401(k) 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 \$3,942 and \$3,380 in 2003 and 2002, respectively.

The Facility provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employees' basic annual salary. For employees who are under age 65 at retirement, the Facility continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Facility pays the full cost of life insurance with coverage limited to \$5,000.

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

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

	2003	2002
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested active plan participants	\$ 47,402	33,675
Plan assets at fair value	—	—
Accumulated postretirement benefit obligation in excess of plan assets	47,402	33,675
Unrecognized loss	(11,050)	(9,362)
Unrecognized prior service cost	6,944	7,236
Accrued postretirement benefit cost	\$ 43,296	31,549

Net periodic postretirement benefit cost includes the following components:

	2003	2002
Service cost/eligibility cost	\$ 9,041	4,827
Interest cost	2,321	1,598
Amortization of loss	317	78
Amortization of prior service cost	(970)	(887)
Net periodic postretirement benefit cost	\$ 10,709	5,616

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

For measurement purposes, for participants younger than age 65, health care cost trend increases of 11% and 12% were assumed for 2003 and 2002, respectively. The rate increases were assumed to decrease through 2009 and later when they level off at 5%. The health care cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2003 by \$5,985 and net periodic postretirement benefit cost for the year ended December 31, 2003 by \$1,889. The weighted average discount rate used was 6.25% and 6.75% for 2003 and 2002, respectively.

(5) Liability for Unpaid Losses and Loss Adjustment Expenses

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

	2003	2002
Balance, January 1	\$ 68,344	11,623
Incurred related to:		
Current year	441,959	448,532
Prior year	(28,482)	35,261
Total incurred	413,477	483,793
Paid related to:		
Current year	304,509	386,556
Prior year	39,862	40,516
Total paid	344,371	427,072
Balance, December 31	\$ 137,450	68,344

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses decreased by \$28,482 and increased by \$35,261 in 2003 and 2002, respectively. During 2002, the Company incurred \$334,732 in losses due to the occurrence of two separate fires in an apartment complex.

(6) Lease Commitments

The Facility conducts its operations in a leased premise under a lease that will expire April 30, 2008. At December 31, 2003, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:	
2004	\$ 8,933
2005	9,015
2006	9,429
2007	9,429
2008	3,143
Total payments	\$ 39,949

Total rental expense was \$10,532 and \$8,655 in 2003 and 2002, respectively.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2003 and 2002

The Facility is charged a portion of the total rentals paid by Insurance Placement Facility of Pennsylvania for common facilities, based upon underwriting activity of the Facility during the year. Rental commitment allocations are based upon continuation of the current level of activity.

(7) Related-Party Transactions

The Insurance Placement Facility of Pennsylvania (note 2) issues all checks, including those payable by the Facility, and is then reimbursed by the Facility. Throughout 2003 and 2002, \$344,371 and \$427,072, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Facility. The related payable to the Insurance Placement Facility of Pennsylvania is \$14,773 and \$30,074 at December 31, 2003 and 2002, respectively.

(8) Annual Statement Reconciliation

The following is a reconciliation between the accompanying statutory financial statements and the annual statement for the year ended December 31, 2003:

	<u>Net loss</u>	<u>Members' deficit</u>
As reported in the annual statement	\$ (225,676)	(82,922)
2002 underwriting and other expense adjustment	28,054	—
2003 underwriting and other expense adjustment	4,344	4,344
As reported herein	<u>\$ (193,278)</u>	<u>(78,578)</u>

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