

**COMMERCIAL CASUALTY INSURANCE CO.
OF NORTH CAROLINA
IN LIQUIDATION**

**Statements of Recorded Cash Receipts
and Disbursements**

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Honorable James E. Long,
Commissioner of Insurance
State of North Carolina:

We have audited the accompanying statements of recorded cash receipts and disbursements of Commercial Casualty Insurance Co. of North Carolina in Liquidation (the "Company") for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 in note 1, the statements of recorded cash receipts and disbursements present a summary of cash activity, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly, in all material respects, the recorded cash receipts and disbursements of Commercial Casualty Insurance Co. of North Carolina in Liquidation for the years ended December 31, 2007 and 2006, and its cash and short-term investment balances as of December 31, 2007 and 2006, on the basis of accounting described in note 1 to the financial statements.

Batchelor, Tillery & Roberts, LLP

September 24, 2008

**COMMERCIAL CASUALTY INSURANCE CO. OF NORTH CAROLINA
IN LIQUIDATION**

Statements of Recorded Cash Receipts and Disbursements

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating activities:		
Receipts:		
Recoveries on paid claims	\$ 75,634	4,739,794
Other receipts	42,594	196,233
Total operating receipts	<u>118,228</u>	<u>4,936,027</u>
Disbursements:		
Distributions to Guaranty Associations	642,334	-
Claim payments - losses	11,899	-
Accounting and legal services	740,871	317,906
Professional services	649,182	531,380
Personnel expense	111,562	436,783
Rent	117,088	155,768
Office expenses	14,952	148,354
Travel	31,745	-
Taxes, licenses and fees	14,284	(5,717)
Other refunds and deposits	72,301	114,783
Total operating disbursements	<u>2,406,218</u>	<u>1,699,257</u>
Net cash (used in) provided by operating activities	<u>(2,287,990)</u>	<u>3,236,770</u>
Investing activities:		
Sales/maturities of invested assets	16,932,215	-
Purchase of invested assets	(16,996,335)	-
Investment income	1,607,114	1,173,840
Investment expense	(66,364)	-
Redemption of CD to repay bank for LOC draw	(837,957)	1,788,250
Payoff of letter of credit backing Hudson Insurance Company	-	(2,584,588)
Total cash provided by investing activities	<u>638,673</u>	<u>377,502</u>
Net (decrease) increase in cash and short-term investments	(1,649,317)	3,614,272
Cash and short-term investments, beginning of period	<u>14,546,960</u>	<u>10,932,688</u>
Cash and short-term investments, end of period	\$ <u>12,897,643</u>	<u>14,546,960</u>

See accompanying notes to financial statements.

COMMERCIAL CASUALTY INSURANCE CO. OF NORTH CAROLINA
IN LIQUIDATION

Notes to Financial Statements

Years ended December 31, 2007 and 2006

(1) Organization and Basis of Presentation

Organization

Commercial Casualty Insurance Co. of North Carolina in Liquidation (the "Company") is a North Carolina domiciled property and casualty insurance company that was placed into rehabilitation by the Wake County Superior Court on November 17, 2003, and liquidation on April 2, 2004. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Liquidator of the Company. It is the Liquidator's responsibility to recover and liquidate assets as necessary to fund the operations of the Company and to investigate the events that led to the insolvency of the Company.

Basis of Presentation

The accompanying statements of recorded cash receipts and disbursements have been prepared on the cash basis without regard to any revenue or expense accruals, which may have existed at the beginning or end of the period.

(2) Cash and Short-Term Investments

Cash and short-term investments consist of the following:

	<u>2007</u>	<u>2006</u>
Bank of America	\$ -	302,084
State Street Bank	-	500,000
Citibank	500,000	-
Reliance Trust Company	29,041	255,277
US Bank	27,988	26,844
Branch Banking & Trust	484,411	844,233
Total cash	<u>1,041,440</u>	<u>1,928,438</u>
Treasury Bills and other Gov't Agency Notes	11,733,971	11,674,294
Certificates of deposit	122,232	944,228
Total cash and short-term investments	<u>\$ 12,897,643</u>	<u>14,546,960</u>

Cash and short-term investments are carried at cost, which approximates market value.

The Company maintains cash and short-term investment balances at several financial institutions in North Carolina, Georgia, Indiana and Massachusetts. The Federal Deposit Insurance Corporation insures cash balances up to \$100,000. The Company's uninsured cash balances total \$993,543 and \$1,957,448 as of December 31, 2007 and 2006, respectively.