

**STATE CAPITAL  
INSURANCE COMPANY**

**Statement of Recorded Cash Receipts  
and Disbursements**

**Year ended December 31, 2007**

**(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 statement of recorded cash receipts and disbursements of State Capital Insurance Company (the "Company") for the year ended December 31, 2007. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is 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 audit provides a reasonable basis for our opinion.

As described in note 1, the statement of recorded cash receipts and disbursements presents 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 statement referred to above presents fairly, in all material respects, the recorded cash receipts and disbursements of State Capital Insurance Company for the year ended December 31, 2007 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 statement.

*Batchelor, Tillery & Roberts, LLP*

January 19, 2009

STATE CAPITAL INSURANCE COMPANY

Statement of Recorded Cash Receipts and Disbursements

Year ended December 31, 2007

Operating activities:

Receipts:

Subrogation recoveries	\$ 538
Miscellaneous income	1,524
Total operating receipts	<u>2,062</u>

Disbursements:

Salaries and benefits	10,638
Accounting and legal fees	14,246
Bank service fees	745
Computer expenses	1,699
Rent	13,075
Office expense	3,611
Consulting fees	23
Miscellaneous expense	8
Total operating disbursements	<u>44,045</u>

Net cash used by operating activities	<u>(41,983)</u>
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Investing activities:

Receipts:

Interest income	321,117
Reclassification of statutory deposits	1,116,239
	<u>1,437,356</u>

Net increase in cash and short-term investments	1,395,373
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Cash and short-term investments, December 31, 2006	<u>3,433,090</u>
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Cash and short-term investments, December 31, 2007	<u>\$ 4,828,463</u>
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See accompanying notes to financial statement.

STATE CAPITAL INSURANCE COMPANY

Notes to Financial Statement

Year ended December 31, 2007

(1) Organization and Basis of Presentation

Organization - State Capital Insurance Company (the "Company") was placed into liquidation by the Wake County Superior Court on June 21, 2004. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the receiver 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 statement of recorded cash receipts and disbursements has been prepared on the cash basis of accounting without regard to any revenue or expense accruals which may have existed at the beginning or end of the year.

(2) Cash and Short-Term Investments

Cash and short-term investments consist of the following:

	<u>2007</u>	<u>2006</u>
BB&T - operating account	\$ 2,495	22,164
BB&T - money market account	3,572,016	3,400,926
US Bank - GA	78,278	-
Deposit - FL	755,849	-
US Bank - NC	225,110	-
US Bank - SC	184,715	-
Cash deposited with RAD Trust	<u>10,000</u>	<u>10,000</u>
	\$ <u>4,828,463</u>	<u>3,433,090</u>

Cash and short-term investments are carried at cost which approximates market value, and consist of accounts held with one North Carolina bank and a brokerage account. As of December 31, 2007 and 2006, the amount held in the bank accounts exceeded the federally insured limit of \$100,000 by \$3,863,485 and \$3,323,960, respectively.