

SERVICE  
SOLUTIONS  
SYNERGY

**2007 ANNUAL REPORT**  
**North Carolina Insurance Guaranty Association**

core  
**CORE VALUES**  
values

**COMMITMENT**

faithfully and diligently fulfill the obligations of our organizations as set forth in the statutes.

**INTEGRITY**

perform each task as efficiently as possible with absolute honesty and integrity.

**RESPECT**

treat your fellow associates and those you serve on behalf of the organizations with dignity and respect.

**TALENTS**

continually strive to improve the organizations through the use of every associate's talents and creativity.

**OWNERSHIP**

encourage participation and a sense of ownership from the members of our organizations.

**CONSISTENCY**

demonstrate fairness and consistency among all associates and encourage personal development.



# INSURANCE GUARANTY ASSOCIATION

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## GENERAL ORGANIZATIONAL INFORMATION

NCIGA Main Phone Number .....	919-783-9813
Facsimile .....	919-783-5262
Toll Free .....	800-456-5086
Website Address .....	www.ncrb.org
Physical Address .....	5401 Six Forks Road Raleigh, NC 27609

## MANAGEMENT CONTACTS

Ray Evans .....	Managing Secretary
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R. Mike Newton .....	Director, IGA
919-582-1018 .....	rmn@ncrb.org
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David Sink .....	Director, Finance
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message from  
**MESSAGE FROM THE CHAIRMAN**  
the chairman

It has been a rare occurrence during my 16 years as Chairman of the NCIGA Board for a year to pass in which we didn't have an insurance insolvency requiring the Association's services. With the 2006-2007 fiscal year in the books and the calendar year winding down with no insolvencies on the horizon, 2007 may prove a welcome exception to the rule.

Certainly since Y2K ushered in the new millennium, the Association has seen unprecedented action while activating for 13 insolvencies. I am proud that the Association has carried out its statutorily created responsibilities during that time in a professional manner while issuing over \$127 million dollars to cover indemnity and claims expense obligations.

I wish to thank Staff, Legal Counsel, and fellow members of the Board for their efforts in making good on the promise of the Association being the safety network for the insurance-buying public during the insolvency of a member insurance company. I look forward to our continuing to meet those obligations in the coming year.

Sincerely,

*Thomas M. Huels*

Chairman

board of  
**BOARD OF DIRECTORS**  
directors

The Plan of Operation provides that the Board of Directors consists of eight directors, comprised of seven elected directors, each of whom are member insurers, who shall serve three-year terms, or until their successors have been elected and qualified, and one non-voting director who shall be a property and a casualty insurance agent authorized to write insurance for a member company and who is appointed by the Commissioner of Insurance to serve for a three-year term at the pleasure of the Commissioner.

**MEMBERS**

**REPRESENTATIVE**

Allstate Insurance Company ..... Nancy Lemke  
Integon Indemnity Corporation..... Art Lyon  
Liberty Mutual Insurance Company ..... Laura Wehrle  
Nationwide Mutual Insurance Company ..... Bob Kistner  
NC Farm Bureau Mutual Insurance Company.... Ron Medeiros \*\*  
State Farm Mutual Automobile Insurance Company.. Tom Huels \*  
Travelers Indemnity Company ..... Benjy Seagle

**NON-VOTING MEMBER**

Property & Casualty Agent ..... Delaine Bradsher  
\*chairman  
\*\*secretary-treasurer

subcommittee  
**SUBCOMMITTEE**

The Audit Committee oversees the financial activities of the Association and formulates recommendations for presentation to the Board of Directors.

**MEMBERS**

**REPRESENTATIVE**

Nationwide Mutual Insurance Company ..... Bob Kistner  
NCFB Mutual Insurance Company ..... Ron Medeiros\*  
Liberty Mutual Insurance Company ..... Laura Wehrle  
\*chairman



Raymond F. Evans, Jr., CPCU  
managing secretary

managing secretary's  
**MANAGING SECRETARY'S REPORT**  
report

As you can imagine, with 2006 total property/casualty net income at an all-time high of \$63.7 billion and statutory net worth increasing to \$487.1 billion, the insolvency business scene has been pretty quiet.

Nonetheless, the NCIGA had plenty to do in the past year.

We worked, first of all, on fine-tuning our programs and operations to enable us to contend with future insolvencies more efficiently. To that end, we completed several projects:

- As part of the business continuity program, a co-location for IT operations was established to allow work to resume more quickly in the event of a disaster.
- Improvements were made to the electronic operating system including, though not yet complete, a significant enhancement to the document-imaging process.
- Significant attention was paid to the financial strategy of maintaining funds for estimated obligations.

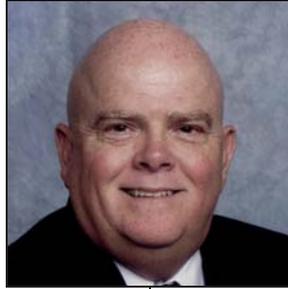
We also worked to match staffing to workload – an ongoing project – with Mike Newton devoting considerable effort to achieving the right balance. While implementing our downsizing plan, we kept in mind our ongoing goal of doing the right thing and managed to reduce staff by half in the past three years in an orderly and non-disruptive way through normal attrition or transfers to other parts of the Organization.

During the past year, we again aggressively pursued the recovery of sums we believe are due the IGA. While there were many successes, we encountered at least a temporary setback in the Appeals Court (detailed in the legal section of this report). We will continue our efforts to collect all sums due.

After much discussion, we decided to delay any attempt to recommend statutory or plan-of-operation changes. With the Legislature busy on more than 3000 bills, it didn't seem like the best time to propose legislation for the IGA.

This has been another year of change, and our associates have again been enthusiastic, engaged, and supportive. Everything we have accomplished is due to them.

I also continue to be pleased with the eagerness to help, to counsel, and to support us from the Board and Committees. Thank you for all your help.



R. Mike Newton  
Director, IGA

*R. Mike Newton*

management report  
**MANAGEMENT REPORT & ANALYSIS**  
& analysis

Our Mission is to fulfill statutorily created duties, which are to provide a mechanism for the payment of covered claims as defined by the Guaranty Act, to avoid excessive delay in those payments, to avoid financial loss to claimants or policy holders because of the insolvency of an insurer, to assist in the detection and prevention of insurer insolvencies, and to provide an association to assess the cost of such protection among insurers. The manner in which our associates carry out those duties will define our excellence as an organization.

**Reflections on legislation forming the Association and defining its role and guidance**

ARTICLE 48. - Post assessment Insurance Guaranty Association.

- 58-48-5. Purpose of Article.  
States the purpose of Article 48 and is incorporated into our Mission Statement
- 58-48-25. Creation of the Association.  
Creates the Guaranty Association
- 58-48-30. Board of directors.  
Establishes a Board through which the Association exercises its powers
- 58-48-35. Powers and duties of the Association.  
Sets forth powers and duties
- 58-48-40. Plan of operation.  
Establishes a plan to assure the fair, reasonable, and equitable administration of the Association.

The theme for this year's annual report is "synergy," which comes from the Greek word *synergia*, meaning "joint work and cooperative action." Synergy occurs when the result is greater than the sum of the parts, an apt description of the by-product of combining the North Carolina Insurance Guaranty Association, the North Carolina Reinsurance Facility, and the North Carolina Rate Bureau. An example supporting that definition is the availability of reasonably priced health insurance, pension plans, and workers' compensation insurance due to a larger pool of employees.

The definition that I embrace is "the cooperative interaction among groups, especially among the acquired subsidiaries or merged parts of a corporation, which creates an enhanced combined effect." Beyond developing a center of subject-matter experts for a segment of the insurance industry, the ability to leverage resources and skill sets has allowed each entity to evolve beyond its normal structure. Without this synergy, it would be cost prohibitive for the Guaranty Association to enjoy the resources of a human resources department, information technology department, and financial department. Additions to the "shared management resources" this year include managers for administrative services and quality assurance.

On a national level, the guaranty fund system continues to evaluate its role of serving as a national safety network for the insurance-buying sector through a series of Strategic Planning Conferences. Through the vision of the Managing Secretary, Board of Directors, Staff, and Counsel, the Guaranty Association already has in production many of the suggested improvements to the system being recommended from the strategic planning conferences, and synergy played a part in our success.

During the report year, the Association received in 66 new claim files and closed 149 files, leaving 531 files open as of August 31, 2007. The Association issued 23,548 checks during the process of paying out \$14.7 million in indemnity claims, unearned premium claims, and allocated claim expenses during the report year, which netted to nearly \$13.4 million after consideration of recoveries.

Through the efforts of Staff and Legal Counsel, we continued to pursue aggressively net worth, subrogation, and large deductible recoveries, utilizing the Guaranty Act's various

provisions, to recoup over \$2 million, nearly a 14% recovery rate of funds spent during the report year. Due to accounting issues involving large deductible recoveries with the Reliance Insurance insolvency, \$703,840 was charged as a recovery from the insolvency, not as a reduction against individual claims.

Workers' Compensation claims continued to be the focus of claims adjustment activity, with 96% of the indemnity, premium refund, and claims expense net payments paid (\$12.9 million) during the report year and 98% of current reserves (\$73.7 million) as of the report period's ending being workers' compensation related.

Between August 2000 and August 2007, we received in 4,836 claims and paid out \$135 million in claims and associated expenses. Our current open claims count of 532 and fiscal-year expenditure of \$13.4 million net dollars represent the smallest numbers since fiscal year 2000 and confirm that we weathered the challenge of unprecedented activity. The current reserve number of \$73.7 million is \$600,000 higher than the previous fiscal year's reserves, indicating the remaining claims, although fewer in number, still represent a large liability exposure to the Association.

At the Board meeting of December 07, 2006, Staff was granted budgeted funds to develop an IT co-location, in concert with the other two organizations, to provide a business-continuity solution in the event of a business interruption. I am pleased to report that the solution is in place, ensuring our ability to provide the promised safety net to our State's insurance-buying public as required by statute.

*R. Mike Newton*

R. Mike Newton  
Director, IGA

claims paid  
**CLAIMS PAID DETAIL**  
detail

	WC			AUTO		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
American Mut. Liab.	-	-	-	-	-	-
Casualty Reciprocal	\$567,397	\$142,907	\$710,304	-	-	-
Commercial Casualty	-	-	-	-	\$63	\$63
Credit General	\$174,714	\$34,344	\$209,058	-	-	-
Employers Casualty	\$44,023	\$21,211	\$65,234	-	-	-
Fremont Indemnity Co.	\$26,619	\$9,565	\$36,184	-	-	-
Home Insurance	\$290,066	\$53,982	\$344,048	-	-	-
Legion Insurance Co.	\$1,801,457	\$276,861	\$2,078,318	23,000	\$1,138	\$24,138
Shelby Insurance Co.	\$59,145	\$25,560	\$84,705	\$80,000	\$2,673	\$82,673
Vesta Insurance Co.	-	-	-	-	-	-
LMI	-	-	-	-	-	-
South Carolina Ins. Co.	\$79,290	\$29,830	\$109,120	\$15,000	\$39,324	\$54,324
PHICO Insurance	\$258,077	\$30,988	\$289,065	-	-	-
Reliance Insurance Co.	\$5,498,732	\$741,110	\$6,239,842	\$24,797	\$15,246	\$40,043
ROA Insurance Co.	\$1,093,444	\$176,105	\$1,269,549	-	-	-
State Capital	-	-	-	\$37,500	\$5,685	\$43,185
Villanova Insurance	\$432,356	\$117,610	\$546,966	-	-	-
888 Mutual Trust	\$636,854	\$60,304	\$697,158	-	-	-
999 Stock Trust	\$95,645	\$7,471	\$103,116	-	-	-
<b>Total</b>	<b>\$11,057,819</b>	<b>\$1,727,848</b>	<b>\$12,785,667</b>	<b>\$180,297</b>	<b>\$64,129</b>	<b>\$244,426</b>

claims reserved  
**CLAIMS RESERVED DETAIL**  
detail

	WC				AUTO			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Commercial Casualty Co.	-	-	-	-	\$20,000	\$3,782	\$23,782	1
Credit General	\$1,616,968	\$43,958	\$1,660,926	5	-	-	-	-
Employers Casualty	\$241,909	\$32,402	\$274,311	5	-	-	-	-
Fremont Indemnity Co.	\$1,674,315	\$173,813	\$1,848,128	3	-	-	-	-
Home Insurance	\$3,291,164	\$251,557	\$3,542,721	50	-	-	-	-
Legion Insurance Co.	\$10,685,760	\$478,771	\$11,164,531	63	\$20,000	\$27,156	\$47,156	2
PHICO Insurance	\$755,956	\$42,640	\$798,596	7	-	-	-	-
South Carolina Ins.	\$1,620,548	\$695,266	\$2,315,814	5	\$86,418	\$25,161	\$111,579	4
Reliance Ins. Co.	\$26,721,720	\$1,308,127	\$28,029,847	142	\$543,431	\$21,354	\$564,785	4
ROA Insurance Co.	\$3,596,952	\$226,133	\$3,823,085	24	-	-	-	-
LMI Insurance Co.	\$2	\$1	\$3	1	-	-	-	-
Vesta Fire Ins. Co.	-	-	-	-	-	-	-	-
Shelby Insurance Co.	\$680,499	\$32,316	\$712,815	7	\$32,500	\$14,514	\$47,014	3
State Capital	-	-	-	-	-	-	-	-
Casualty Reciprocal	\$3,387,691	\$247,623	\$3,635,314	30	-	-	-	-
Villanova Ins. Co.	\$1,707,462	\$120,533	\$1,827,995	15	-	-	-	-
888 Mutual Trust	\$11,097,735	\$603,337	\$11,701,072	31	-	-	-	-
999 Stock Trust	\$951,629	\$40,694	\$992,323	4	-	-	-	-
<b>Total</b>	<b>\$68,030,309</b>	<b>\$4,297,172</b>	<b>\$72,327,481</b>	<b>492</b>	<b>\$702,349</b>	<b>\$91,968</b>	<b>\$794,316</b>	<b>14</b>

	ALL OTHER			TOTAL
	Indemnity Paid	Expense Paid	Total Paid	
American Mut. Liab.	-	-	-	-
Casualty Reciprocal	-	-	-	\$710,304
Commercial Casualty	-	\$6,527	\$6,527	\$6,590
Credit General	-	-	-	\$209,058
Employers Casualty	-	-	-	\$65,234
Fremont Indemnity Co.	-	-	-	\$36,184
Home Insurance	-	\$778	\$778	\$344,826
Legion Insurance Co.	-	-\$4,668	-\$4,668	\$2,097,788
Shelby Insurance Co.	-	\$48,914	\$48,914	\$216,292
Vesta Insurance Co.	-	-	-	-
LMI	-	-	-	-
South Carolina Ins. Co.	-	\$9,636	\$9,636	\$173,080
PHICO Insurance	-\$,1000	\$51,881	\$50,881	\$339,946
Reliance Insurance Co.	-	\$618	\$618	\$6,280,503
ROA Insurance Co.	-	-\$8,510	-\$8,510	\$1,261,039
State Capital	\$124,902	-	\$124,902	\$168,087
Villanova Insurance	-	-	-	\$549,966
888 Mutual Trust	-	-	-	\$697,158
999 Stock Trust	-	-	-	\$103,116
<b>Total</b>	<b>\$123,902</b>	<b>\$105,176</b>	<b>\$229,078</b>	<b>\$13,259,171</b>
			<b>Unearned Premium</b>	<b>\$134,230</b>
			<b>Net Total</b>	<b>\$13,393,401</b>
			<b>Recoveries</b>	<b>\$1,339,318</b>
			<b>Gross Total Expenditure</b>	<b>\$14,732,719</b>

	ALL OTHER				TOTAL	
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Total Reserves	Files Pending
Commercial Casualty Co.	\$1,000	\$8,249	\$9,249	1	\$33,031	2
Credit General	-	-	-	-	\$1,660,926	5
Employers Casualty	-	-	-	-	\$274,311	5
Fremont Indemnity Co.	-	-	-	-	\$1,848,128	3
Home Insurance	\$12,720	\$1,540	\$14,260	3	\$3,556,981	53
Legion Insurance Co.	\$100,000	\$8,427	\$108,427	1	\$11,320,114	66
PHICO Insurance	\$40,000	\$120,487	\$160,487	3	\$959,083	10
South Carolina Ins.	\$15,000	\$5,153	\$20,153	1	\$2,447,546	10
Reliance Ins. Co.	\$62,700	\$12,096	\$74,796	5	\$28,669,428	151
ROA Insurance Co.	-	-	-	-	\$3,823,085	24
LMI Insurance Co.	-	-	-	-	\$3	1
Vesta Fire Ins. Co.	\$50,000	-	\$50,000	1	\$50,000	1
Shelby Insurance Co.	\$76,600	\$73,881	\$150,481	9	\$910,310	19
State Capital	\$498	\$18,362	\$18,860	1	\$18,860	1
Casualty Reciprocal	-	-	-	-	\$3,635,314	30
Villanova Ins. Co.	-	-	-	-	\$1,827,995	15
888 Mutual Trust	-	-	-	-	\$11,701,072	131
999 Stock Trust	-	-	-	-	\$992,323	4
<b>Total</b>	<b>\$358,518</b>	<b>\$248,195</b>	<b>\$606,713</b>	<b>25</b>	<b>73,728,510</b>	<b>531</b>

I G A   A n a l y s i s  
**IGA ANALYSIS CHART**  
 c h a r t

For the years 2000-2006, the percentage of total income generated by the NCIGA comprised of net assessments levied against the member companies is displayed. Additionally, the percentage of net worth and large deductible recoveries to the gross indemnity, claims expense, and unearned premium payment total is reflected.

Year Dec 31	Net Assessments	TTL Income	Percent Assess/ Income	Gross Indem, Claims Exp, & Prem	Recoveries	Percent Recoveries/ Gross
2000	< 1,525,000>	\$2,504,000	<61>	\$1,295,000	\$1,000	0
2001	\$26,833,000	\$31,780,000	84	\$4,180,000	\$15,000	0.3
2002	\$17,367,000	\$27,697,000	63	\$21,306,000	\$135,000	1
2003	\$22,551,000	\$37,260,000	61	\$33,723,000	\$877,000	0.6
2004	\$22,365,000	\$35,999,000	62	\$23,723,000	\$4,927,000	17
2005	\$21,378,000	\$41,885,000	51	\$20,067,000	\$3,267,000	14
2006	\$4,765,000	\$12,015,000	40	\$13,614,000	\$3,085,000	18

For the years 2000-2006, the percentage of operating expenses to the gross indemnity, claims expense, and unearned premium payment total is reflected. Additionally, the percentage of funds on hand to the reserves as of December 31st of each year is displayed.

Year Dec 31	Gross Indem, Claims Exp, & Prem	Operating Exp	Percent Operating/ Gross	Reserves	Percent Funds Reserves
2000	\$1,295,000	\$473,000	36	\$7,296,000	233
2001	\$4,180,000	\$590,000	14	\$40,636,000	101
2002	\$21,306,000	\$1,829,000	9	\$63,756,000	91
2003	\$33,723,000	\$2,580,000	7	\$62,032,000	95
2004	\$23,723,000	\$2,895,000	10	\$61,293,000	112
2005	\$20,067,000	\$2,407,000	10	\$70,678,000	119
2006	\$13,614,000	\$2,350,000	14	\$75,240,000	106

## SHARED RESOURCES



**JIM AUMAN**  
director,  
information technology

**VICKI GODBOLD**  
director,  
human resources

**DAVID SINK**  
director,  
finance

**TAMMY CHOBOY**  
manager,  
quality assurance

**AMY TART**  
manager,  
administrative services

## IGA MANAGEMENT STAFF



**WILLIAM C. DELBRIDGE**  
claims manager

**DONNA KALLIANOS**  
casualty claims supervisor

**GAIL CARTER**  
customer service

**ROWENA BALL**  
workers compensation  
claims supervisor

In the past year, the major legal issues and outstanding litigation the Association has faced involve the following issues:

### 1. DOMICILIARY RECEIVERSHIP PROCEEDINGS

Without any new insurer insolvencies in the past year, much of the Association's attention on legal issues has focused on resolving claims from the existing insolvent insurer estates. In the domiciliary receivership proceeding for Reliance Insurance Company ("Reliance") in Pennsylvania, the Association agreed to participate in a settlement with the Liquidator concerning legal and administrative expenses incurred by the Association, and also worked with the Reliance Liquidator on issues related to collateral posted with Reliance by insureds with large-deductible policies. In the proceeding for Reciprocal of America ("ROA") in Virginia, the Association entered into an early access agreement with the ROA receiver and is awaiting disbursements from the ROA estate. Finally, the Association has submitted its final claim in the Massachusetts receivership proceeding involving American Mutual Liability Insurance Company ("AMLICO") and is awaiting final distribution from the AMLICO receiver.

### 2. ANCILLARY RECEIVERSHIP PROCEEDINGS

In North Carolina, the Association has worked closely with the North Carolina Department of Insurance to bring closure to the long-pending ancillary receivership proceeding for the following insolvent insurers: (a) American

Universal Insurance Company, (b) Ideal Mutual Insurance Company, (c) Integrity Insurance Company, (d) Midland Insurance Company, (e) Mission Insurance Company, (f) Mission National Insurance Company; and (g) United Community Insurance Company. The Association has prepared its final accounting in each of these insolvent estates and expects orders terminating these ancillary receivership proceedings to be entered by the Court during the next few months.

### 3. LITIGATION OVER GUARANTY ACT'S BAR DATE PROVISION

An opinion issued on February 7, 2006, in the case involving the most significant legal issue for the Association that is currently in litigation involves enforcement of the Guaranty Act's "bar date" provision to bar industrial disease claims that are filed with the North Carolina Industrial Commission. As reported in last year's Annual Report, the NCIGA has litigated before the Industrial Commission the issue of whether industrial disease claims (primarily asbestos claims) first filed with the Association after the bar date for filing claims against the insolvent insurer constitute "covered claims." In two separate Opinions and Award, a Deputy Commissioner adopted the arguments of the Association on the bar date question and ruled that such claims are not "covered claims" under the Guaranty Act. However, the plaintiffs did not appeal either of these decisions to the Full Industrial Commission. As a result, plaintiffs have continued to assert new claims against the Association after the bar date established for the filing of claims against insolvent insurers. The Association continues to vigorously assert the "bar date" provision of the Guaranty Act in all proceedings before the Industrial Commission where it is applicable.





David Sink  
Director, Finance

*David Sink*

finance directors  
**FINANCE DIRECTOR'S REPORT**  
report

The North Carolina Insurance Guaranty Association finished the 12 months ending August 31, 2007, in sound financial condition. The Association's cash and investments increased approximately 7.3%, from \$78.6 million to \$84.3 million, during the past year. The liabilities associated with the Association's claim and expense obligations increased less than 1% over the last twelve months, from \$73.1 million to \$73.7 million, as claim payments continued and reserves were refined.

The improvement in the Association's financial position was primarily attributable to a stable environment with no activation of new insolvencies, the distribution of assets by some of the administrators of the estates, and an increase in investment income during the report year. The Association received distributions from the Reliance administrators of approximately \$6.2 million related to large-deductible recoveries and partial reimbursement of claim and expense payments made through the previous year. Another distribution in the amount of \$4.7 million was received from the liquidators of Reciprocal of America based on claim payments made on behalf of this insolvent insurer. Investment income from the Association's cash management program exceeded \$3.5 million for the year ending August 31, 2007, and net claim and claim expense payments totaled \$13.3 million for the year – down approximately 14% from the previous 12 months.

The only assessment authorized and issued during the past 12 months related to the workers' compensation Mutual Reserve Account – formerly known as the Mutual Workers' Compensation Security Fund and administered by the North Carolina Department of Insurance prior to 1993. This assessment was necessary as the General Statutes of North Carolina require the Association to maintain a fund balance of 150% of the contingent liabilities of the account. No other assessments were necessary during the report year, and assessments for next year should be minimal – based on our projections at this time.

We are pleased with the financial condition of the North Carolina Insurance Guaranty Association and believe we are positioned to meet our statutory obligations in the year ahead from both staffing and financial perspectives.

*David E. Sink*

David E. Sink  
Director – Finance

# INSURANCE GUARANTY ASSOCIATION

## BALANCE SHEET

<b>ASSETS</b>	<b>August 31, 2006</b>	<b>August 31, 2007</b>
Cash (Checking Account)	\$2,010,189	\$226,774
Investments	76,544,332	84,024,560
Assessments Receivable	464,708	131,506
Other Assets	-	-
<b>Total Assets</b>	<b>\$79,019,229</b>	<b>\$84,382,840</b>
<b>LIABILITIES &amp; FUND EQUITY</b>		
Accounts Payable	\$(59,454)	\$2,312
Claims Liability	67,291,898	69,091,177
Unearned Premium Liability	-	-
Claims Expense Liability	5,790,232	4,637,334
Outstanding Check Liability	135,092	135,092
Other Liabilities	(168)	(366)
<b>Total Liabilities</b>	<b>\$73,157,600</b>	<b>\$73,865,549</b>
Fund Equity	\$5,861,629	\$10,517,291
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$79,019,229</b>	<b>\$84,382,840</b>

## INCOME STATEMENT

<b>INCOME</b>	<b>August 31, 2006</b>	<b>August 31, 2007</b>
Membership Fees	\$500	\$1,250
Interest Income	3,004,246	3,592,144
Assessments Income	22,743,086	4,067,947
Miscellaneous Income	11,899,139	13,501,090
<b>Total Income</b>	<b>\$37,646,971</b>	<b>\$21,162,431</b>
<b>EXPENSES</b>		
Refund To Commissioner	\$975,174	-
Refund To Member Insurers	1,400,000	-
Operating Expenses	2,296,040	2,417,760
Claims Paid (Net)	13,135,767	11,416,688
Claim Expenses	2,311,524	1,891,710
Premium Refunds	95,784	134,230
<b>Total Expenses</b>	<b>\$20,214,289</b>	<b>\$15,860,388</b>
<b>Net Income</b>	<b>\$17,432,682</b>	<b>\$5,302,043</b>

## Report of Independent Auditors

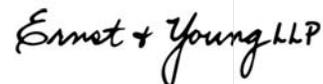
The Board of Directors and Members  
North Carolina Insurance Guaranty Association

We have audited the accompanying statements of cash receipts and disbursements of the North Carolina Insurance Guaranty Association (the Association) for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Association'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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, and 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 cash receipts and disbursements present a summary of cash activity and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the North Carolina Insurance Guaranty Association for the years ended December 31, 2006 and 2005, and its cash and investment balances at December 31, 2006 and 2005.



May 11, 2007

