

COMMERCIAL CASUALTY INSURANCE CO.
OF NORTH CAROLINA
IN LIQUIDATION

Statements of Recorded Cash Receipts
and Disbursements

Years ended December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Honorable Wayne Goodwin,
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, 2014 and 2013, 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 the cash basis of accounting described in note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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 audit 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 auditors' 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 auditors consider internal control relevant to the Company'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 Company'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 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 recorded cash receipts and disbursements of the Company for the years ended December 31, 2014 and 2013, and its cash and short-term investments balances as of December 31, 2014 and 2013, in accordance with the cash basis of accounting described in note 1 to the financial statements.

Basis of Accounting

We draw attention to note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Butchelor, Zilley & Roberts, LLP

June 11, 2015

COMMERCIAL CASUALTY INSURANCE CO. OF NORTH CAROLINA
IN LIQUIDATION

Statements of Recorded Cash Receipts and Disbursements

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating activities:		
Receipts:		
Reinsurance receipts	\$ 356,938	4,254,614
Restitution and debt recoveries	667	2,733
Other receipts	<u>6,104</u>	<u>146</u>
Total operating receipts	<u>363,709</u>	<u>4,257,493</u>
Disbursements:		
Distributions to Guaranty Associations	-	20,719,350
Losses and LAE paid	647,313	-
Accounting fees	26,252	31,154
Consultants fees	-	9,070
Personnel expense	27,473	35,561
Rent and occupancy expense	24,119	21,499
Office expenses	2,883	6,248
Furniture, equipment, and EDP	1,007	4,340
Taxes, licenses and fees	100,456	-
Travel	78	58
Other expenses	67	5
Other disbursements - escheat liability	271,956	-
Change in RAD Trust deposit	<u>-</u>	<u>37,500</u>
Total operating disbursements	<u>1,101,604</u>	<u>20,864,785</u>
Net cash used in operating activities	<u>(737,895)</u>	<u>(16,607,292)</u>
Investing activities:		
Net sales of invested assets	410,016	-
Net investment income	<u>24,832</u>	<u>24,071</u>
Total cash provided by investing activities	<u>434,848</u>	<u>24,071</u>
Net decrease in cash and short-term investments	(303,047)	(16,583,221)
Cash and short-term investments, beginning of period	<u>2,285,091</u>	<u>18,868,312</u>
Cash and short-term investments, end of period	\$ <u>1,982,044</u>	<u>2,285,091</u>

See accompanying notes to financial statements.

COMMERCIAL CASUALTY INSURANCE CO. OF NORTH CAROLINA
IN LIQUIDATION

Notes to Financial Statements

Years ended December 31, 2014 and 2013

(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.

In accordance with N.C. General Statute, Chapter 58, Article 30, the receiver is required to marshal and disburse assets to creditors as set forth in N.C. General Statute § 58-30-220. The receiver remains subject to the continuing oversight of the liquidation court. On July 5, 1995, the Wake County Superior Court approved the establishment of RAD Trust naming the Commissioner of Insurance as the Grantor. RAD Trust was managed by employees of the North Carolina Department of Insurance. The expenses of RAD Trust were incurred for the direct or indirect benefit of the companies in liquidation. As such, these costs were recouped through assessments to the companies based primarily on labor hours incurred on behalf of each company.

The RAD Trust was closed by order of the Wake County Superior Court in October 2014. With the closing of the Trust, all joint expenses are being paid through the estate of CAGC Insurance Company and are reimbursed by the Company on a monthly basis.

Basis of Presentation

The accompanying statements of recorded cash receipts and disbursements have 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 periods.

(2) Cash and Short-Term Investments

Cash and short-term investments as of December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash - Branch Banking & Trust Co. and other	\$ <u>1,982,044</u>	<u>2,285,091</u>

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

COMMERCIAL CASUALTY INSURANCE CO. OF NORTH CAROLINA
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Notes to Financial Statements, Continued

Years ended December 31, 2014 and 2013

(2) Cash and Short-Term Investments, Continued

The Company maintains cash and short-term investment balances at several financial institutions in New Mexico and North Carolina. The Federal Deposit Insurance Corporation (FDIC) insures cash in bank accounts up to \$250,000. Short-term investments and cash in custody accounts are not FDIC insured. The Company's uninsured cash balances totaled \$1,808,391 and \$2,040,488 as of December 31, 2014 and 2013, respectively.

(3) Subsequent Events

The date to which events occurring after December 31, 2014, the date of the most recent statement of recorded cash receipts and disbursements, have been evaluated for possible adjustment to the financial statements or disclosure is June 11, 2015, the date the financial statements were available to be issued.