

CERTIFICATE OF SERVICE

I, the undersigned attorney, do certify that a copy of the foregoing pleading or paper was served as follows:

Honorable A. Graham Shirley, II
Wake County Superior Court
Post Office Box 351
Raleigh, NC 27602-0351

Dallas R. McClain
P.O. Box 7961
Greensboro, NC 27417

Steven A. McCloskey
240 Natalie Drive
Winston-Salem, NC 27104-2457

in the following manner:

(xx) by United States mail, first class postage prepaid, as provided by Rule 5(b) of the North Carolina Rules of Civil Procedure, or

() by facsimile transmission to the facsimile number set out above, as provided by Rule 5 of the North Carolina Rules of Civil Procedure.

This the 3rd day of April, 2018.

JOSH STEIN
ATTORNEY GENERAL

By: _____

Heather H. Freeman

Heather H. Freeman
Assistant Attorney General
N. C. State Bar No. 28272
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CANNON SURETY, LLC
NORTH CAROLINA COMMISSIONER OF INSURANCE AS REHABILITATOR
MONTHLY REPORT
INCLUDING
A STATEMENT OF FINANCIAL POSITION
AS OF FEBRUARY 28, 2018
AND
A STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD FROM SEPTEMBER 27, 2017
THROUGH FEBRUARY 28, 2018

INTRODUCTION

BACKGROUND

Cannon Surety, LLC (hereinafter, "Cannon") was licensed by the North Carolina Department of Insurance (hereinafter, the "NCDOI") on December 22, 2014, as a special purpose captive insurance company under Part 9 of Article 10 of Chapter 58 of the North Carolina General Statutes. On September 27, 2017, the Wake County Superior Court (hereinafter, the "Court") issued a Seizure Order against Cannon. On January 2, 2018, the Court entered an Order of Rehabilitation against Cannon and appointed the Commissioner of Insurance for the State of North Carolina as Rehabilitator (hereinafter, the "Rehabilitator").

PURPOSE OF THIS REPORT

The purpose of this report is to provide a monthly update to the Court, as required by the Order of Rehabilitation, on the work that the Rehabilitator and his staff have carried out since the issuance of the Seizure Order on September 27, 2017, to set out the present situation of Cannon, and to provide a statement of financial position (balance sheet) as of February 28, 2018, and a statement of receipts and disbursements for the period from September 27, 2017 through February 28, 2018.

LIMITATIONS

This report is based only on the knowledge that the Rehabilitator and his staff have gained from the work performed since the issuance of the Seizure Order. Facts may exist that the Rehabilitator is unaware of that may have a material effect on the information provided in this report. The Rehabilitator will update the information in future monthly reports as additional facts are discovered.

SUMMARY

GREENSBORO OFFICE

Cannon Personal Property

- Financial statements previously filed with the NCDOJ do not contain any assets titled as personal property, however numerous items of personal property were located at Cannon's office. While reviewing records of Cannon, receipts for various items of personal property were found.
- On November 20, 2017, letters were sent to Mr. Dallas McClain, Mr. Mark Bibbs, Mr. Jeremy Brian Valentine on behalf of Piedmont Bail Services, LLC, and Mr. Jeremy Brian Valentine on behalf of All American Bail Bonds, LLC (hereinafter, "AABB"), asking each to provide to the NCDOJ a list of any personal property, along with proof of ownership. Mr. Bibbs, on December 5, 2017, replied via e-mail claiming ownership of items in his "law office located at Cannon" consisting of the following (no proof of ownership was provided):
 1. All items consisting of "my furniture, case files, client documents, books, journals, memos, deposition transcripts"; and
 2. His furniture which he listed as 3 items, the desk and office chair contained inside his locked personal office in the adjacent suite at the end of the hallway and his ball and claw antique desk with leather inlaid top in the lobby area adjoining his locked personal office.
- On December 5, 2017, an e-mail and a letter were sent to Mr. Robert Brawley asking him to provide the NCDOJ with a list of any personal property, along with proof of ownership, for any of his personal property that may be located within Cannon's office. On February 23, 2018, Mr. Brawley responded via e-mail that he had no personal property located within Cannon's office.
- On December 6, 2017, the NCDOJ staff met Mr. Dallas McClain and Mr. Mark Bibbs at Cannon's office. Mr. McClain identified items within the office as either personal or Cannon's. Items were tagged based on Mr. McClain's representations. Mr. Bibbs was only allowed to take his case files, client documents, books, journals, memos and deposition transcripts as identified above. As for the ball and claw foot desk, Mr. McClain stated that it was not Mr. Bibbs' and that it belonged to another individual, Lyne Thompson.
- The Rehabilitator had a licensed auctioneer go through Cannon's office on December 27, 2017, and provide a valuation estimate of the personal property located within the office. In total, he estimated the value to be between \$4,500 and \$6,800.
- On January 22, 2018, and January 26, 2018, the Rehabilitator took inventory and tagged all personal property located at Cannon's office located at 2303 W Meadowview Rd, suite 200, Greensboro, NC 27407.
- On February 6, 2018, the Rehabilitator filed a motion to sell property seeking permission from the Court to sell through public auction the property located in the offices of Cannon.

- On February 22 and 23, 2018, the Rehabilitator obtained quotes from three moving and storage companies to move the personal property located in Cannon's office. The Rehabilitator selected the lowest quote. On February 28, 2018, all personal property located in Cannon's office was moved and placed into storage pending the outcome of the Rehabilitator's motion to sell property.
- On March 21, 2018, the motion to sell property was heard by the Court. The Court granted the Rehabilitator's motion to sell all property not in dispute. The Court directed the parties to attempt to negotiate a resolution regarding the ownership of disputed property. If a resolution is not reached, then it may be necessary to mediate a resolution.
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Lease

- The lease for the office space occupied by Cannon is in the name of "AABB, LLC" ("AABB") and was signed by Mr. Dallas McClain on behalf of AABB.
- An "office rental agreement" was executed between Cannon and AABB, and was signed by Mr. Dallas McClain on behalf of Cannon, and by Ms. Perla Lopez on behalf of AABB, wherein Cannon and AABB agreed that Cannon would pay the monthly rental amount and AABB would reimburse Cannon approximately 35%.
- The lease between AABB and the landlord, Security National Properties, did not allow for a sub-lease without the prior written consent of the landlord.
- Due to the limited amount of cash on hand, lease payments were not made by Cannon while under the Seizure Order and the subsequent Rehabilitation Order for the months of October 2017, November 2017, December 2017, January 2018, and February 2018.
- According to Cannon's records, it does not appear that AABB paid as promised for the months of October 2016 through September 2017. Total due to Cannon from AABB for amounts paid through September 2017, appears to be \$23,940.
- On January 12, 2018, Mr. Dallas McClain forwarded to the Rehabilitator via e-mail a "Notice of Lease Default - 3 - Day Notice to Pay or Quit" which he received from the landlord, Security National Properties. The Notice was dated December 28, 2017, and was addressed to AABB, LLC, attention: Dallas McClain.
- A copy of the Rehabilitation Order has been given to the landlord, Security National Properties.
- On March 1, 2018, the Rehabilitator notified the landlord via e-mail that the office has been vacated.

BAIL BOND NOTICES OF FORFEITURE

Following the entry and execution of the Seizure Order, the Rehabilitator utilized the information from the database used by Cannon for the inventory of bond powers. As of October 1, 2017, the Rehabilitator began receiving Bond Forfeiture Notices for Cannon from Clerks of Court throughout North Carolina. The Rehabilitator created a database (hereinafter "Forfeitures Database") which combined information from the bond powers inventory, information provided from the Administrative Offices of the Court (hereinafter "AOC"), forfeitures received, and bond

powers written through the date of the Seizure Order and submitted by bail agents to the Rehabilitator.

The Forfeitures Database tracks pertinent information from notices of forfeiture received and/or bond powers sent to the Rehabilitator and is utilized to prevent forfeitures from going to final judgment. Each day notices are entered. Email notifications are generated that night and sent to the bail agent notifying the bail agent of notice(s) received and instructing the bail agent to act to set aside forfeitures in accordance with the procedures set forth in N.C. Gen. Stat. §15A-544.5, and to provide notification to the Rehabilitator that action has been taken.

The Forfeitures Database sends out a second notification from the NCDOI's General Counsel 75 days before the date the judgment will become final reminding the bail agent that action needs to be taken to prevent the forfeiture(s) from going to final judgment and from actions being taken against the agent's license if a final judgment does occur. If necessary, additional follow-up is taken 50 days before the date of final judgment by the NCDOI's General Counsel.

In total, the Rehabilitator has received 1,664 notices of forfeiture. The total face amount of these notices is \$11,562,166. Of these outstanding bonds, the NCDOI has confirmed, through March 21, 2018, that 684 cases have been set aside by the courts, motions to set aside have been filed by the bail agents in 154 cases, 76 cases have been satisfied by payment by the bail agent, and 205 cases have been otherwise discharged by the courts. In addition to communicating with bail agents regarding specific cases, NCDOI's General Counsel has access to the VCAP database administered by AOC, and has been steadily going through and updating the database with actions that have occurred since it was established in early November 2017. Finally, NCDOI's General Counsel has been in regular contact with staff at AOC as well with numerous school board attorneys across the state regarding outstanding bond forfeitures.

BAIL BOND JUDGMENTS

As of March 21, 2018, Cannon had received 91 bail bond judgments since the issuance of the Seizure Order for a total dollar amount of \$640,795, not including court costs, sheriff's fees and interest. Amounts due by county are as follows:

County	Number	Amount
Alamance	4	5,000.00
Bladen	1	500.00
Cabarrus	2	4,000.00
Cumberland	18	118,900.00
Davidson	1	1,000.00
Durham	1	2,000.00
Edgecombe	1	10,000.00
Forsyth	1	50,000.00
Guilford	6	11,545.00
Harnett	1	1,000.00

Haywood	2	75,000.00
Iredell	16	202,000.00
Johnston	1	1,000.00
Lenoir	2	700.00
Mecklenburg	3	6,500.00
Nash	1	5,000.00
Orange	2	10,000.00
Person	1	30,000.00
Pitt	2	6,000.00
Robeson	4	4,000.00
Rowan	1	7,500.00
Sampson	1	500.00
Union	5	8,500.00
Vance	1	30,000.00
Wake	9	38,550.00
Watauga	1	1,000.00
Wayne	1	2,000.00
Wilson	2	8,600.00

LAWSUITS

To the Rehabilitator's knowledge, at the time of the Seizure Order, Cannon was a plaintiff in the following lawsuits:

1. Premier Judicial Consultants, LLC, et al. v. Clyde Robert Brawley, Jr., 17 CVS 13352; Wake County Superior Court
2. Dallas McClain, et al. v. Mark Wayne Cartret, et al., 17 CVS 3831; Wake County Superior Court.

The files for each have been requested from the attorneys who have been handling these cases on behalf of Cannon. It is the intent of the Rehabilitator to have his own attorneys review the files to determine the merit of continuing the lawsuits.

Case No. 17 CVS 13352 - Attorney Mark Bibbs responded on February 1, 2018, via e-mail and stated that the NCDOI is not the client who hired him and therefore is not entitled to privileged and confidential information contained in the file, unless Dallas McClain provides a properly executed and notarized written release of all the files to the NCDOI. Mr. Bibbs further stated that since the litigation has two plaintiffs, Cannon and Premier Judicial Consultants, LLC (Premier), that Premier would have to execute the same release. Mr. Bibbs stated that the file is extremely voluminous and that his office would not bear the cost of copying or having the information placed on a flash drive. Mr. Bibbs has offered to place the non-confidential portions of the file with a local photocopy shop. The Rehabilitator can then purchase copies.

On February 23, 2018, Mr. Bibbs filed a motion to withdraw as counsel for Cannon and Premier.

On February 28, 2018, Daniel S. Johnson, Special Deputy Attorney General, M. Denise Stanford, Special Deputy Attorney General, and Heather H. Freeman, Assistant Attorney General, filed a notice of appearance as counsel of record for Cannon.

This motion was heard on March 21, 2018, and the Court granted and signed the Order Allowing Withdrawal.

Case No. 17 CVS 3831 – Attorney Grady Richardson responded on February 12, 2018, and stated that he is willing to send “the pleadings and certain other information that is not privileged or otherwise subject to any confidentiality or protective order.” Mr. Richardson sent four e-mails containing various pleadings and other documents. The information provided is still under review.

COLLECTIONS

Because of the bail bond judgments against Cannon, the Rehabilitator is seeking to recover monies from the bail agents who wrote the bail bonds as well as others who may have contractually agreed to indemnify Cannon in the event of a bail bond judgment. It is anticipated that lawsuits may be filed against these persons. In addition, the Rehabilitator is seeking to determine whether additional lawsuits are necessary to assert Cannon’s rights against third parties.

On February 16, 2018, counsel for the Rehabilitator sent an email to all agents with outstanding judgments instructing the agents to satisfy the judgments. Some agents, as instructed, have satisfied a small number of the judgments. As of March 21, 2018, there are 91 active judgments totaling \$640,795.

CONTINUATION OF BUSINESS

A final decision as to the course of action to take with Cannon has not yet been determined.

OTHER

Tax Returns

Due to the lack of cash to hire an outside accounting firm, the Rehabilitator will be preparing and filing the tax returns for Cannon.

Audit

It has been the practice for the Rehabilitator of other insurance company receiverships to have an audit performed by an outside certified public accountant, the cost of which is borne by the company upon whom the audit was performed. With Cannon, there is limited cash with which to perform an audit and to pay other administrative expenses expected to be incurred. It is the intent of the Rehabilitator to not have an independent audit performed unless otherwise instructed by the Court.

Disbursements

During the period from September 28, 2017, the date of the Seizure Order, through February 28, 2018, the Rehabilitator has paid out, other than for bank service charges, \$24,070. This amount was paid to the North Carolina Department of Revenue for interest due for 2015 premium tax of \$616, premium tax for 2016 of \$22,218 and interest due for 2016 premium tax of \$657. The Rehabilitator negotiated with the North Carolina Department of Revenue to have the penalties for 2015 and 2016 waived in the amount of \$18,752. The Rehabilitator paid \$200 to the North Carolina Secretary of State for the 2017 annual report filing. The Rehabilitator paid \$379 to his staff as reimbursement for mileage and packing supplies related to administering the rehabilitation.

Confession of Judgment

On February 2, 2018, the Rehabilitator became aware of a purported confession of judgment that was executed on December 15, 2017, by Dallas McClain on behalf of Cannon for the benefit of Mark Bibbs in the amount of \$227,850.50 plus interest at the legal rate of eight percent (8%). On February 6, 2018, the Rehabilitator filed motions to strike purported confession of judgment against Cannon. On March 21, 2018, the Court heard the motion filed by the Commissioner of Insurance on February 6, 2018, to strike the Confession of Judgment against Cannon Surety, LLC filed with the Clerk of Superior Court of Wake County in Case No. 17 CVS 15505 on December 18, 2017. The Court granted the motion to strike.

Motion to Intervene and Motion for Attorney Fees

On March 15, 2018, Mark Bibbs filed a Motion to Intervene and a Verified Motion for Payment of Attorney Fees to recover attorney fees from his former client, Cannon, in the amount of \$499,588.20. The Court denied the Motion to Intervene on March 21, 2018. The Verified Motion for Payment of Attorney Fees was denied without prejudice to the right of Mark Bibbs to make a motion for payment of disputed attorney fees that complies with State Bar rules regarding the Fee Dispute Resolution Program. On March 22, 2018, the Rehabilitator, on behalf of Cannon, notified Mr. Bibbs via e-mail that he disputes Mr. Bibbs' claim for \$499,588.50 in attorney fees.

Amended Order of Rehabilitation

On January 30, 2018, the Rehabilitator filed a motion to clarify and amend the Order of Rehabilitation; Order Appointing Receiver; Order Granting Injunctive Relief entered on January 2, 2018. The motion was heard on March 21, 2018, and the Court agreed to amend the Order of Rehabilitation; Order Appointing Receiver; Order Granting Injunctive Relief to exempt proceedings or actions instituted pursuant to Chapter 15A of the North Carolina General Statutes against Cannon or its appointed bail agents for the enforcement of bail bond forfeitures on bail bonds executed on behalf of Respondent Cannon or appeals thereof from the provisions of Paragraphs 10 and 11 of the "Order of Rehabilitation; Order Appointing Receiver; Order Granting Injunctive Relief" entered herein on January 2, 2018 to the extent that such proceedings or actions may proceed to the final judgment stage. The Commissioner of Insurance and the Department of Insurance were enjoined and prohibited from making payment for final forfeiture judgments from the funds on deposit in Cannon's name at US Bank until further order of the Court.

INTRODUCTION TO CANNON SURETY, LLC
FINANCIAL STATEMENTS
AS OF FEBRUARY 28, 2018

Introduction and Basis of Presentation: Cannon Surety, LLC (Company) is a North Carolina domiciled captive insurance company that was placed into rehabilitation by the Wake County Superior Court on January 2, 2018. The Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Rehabilitator of the Company. It is the Rehabilitator's responsibility to take possession of the assets of the insurer and to administer them under the general supervision of the Court.

The accompanying statement of financial position reflects general ledger balances of the Company as of February 28, 2018, adjusted to reflect circumstances currently known to the Rehabilitator. Amounts may be further adjusted prospectively as deemed appropriate based on the Rehabilitator's continued investigation. Financial statements were not regularly prepared by the Company so the amounts reflected on the statement of financial position represent the Rehabilitator's best estimate, as explained in the accompanying notes, of the Company's assets and liabilities as of February 28, 2018. The accompanying statement of receipts and disbursements presents all actual cash receipts and disbursements for the period from September 28, 2017, the date of the execution of the Seizure Order, through February 28, 2018.

CANNON SURETY, LLC, IN REHABILITATION
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Financial Position
As of February 28, 2018

Assets

Cash and Cash Equivalents	(Note A)	\$ 25,760
Cash and Cash Equivalents - Restricted	(Note A)	992,153
Accounts Receivable	(Note B)	61,020
Other Restricted Assets:	(Note C)	
Build Up Fund		397,561
Collateral Account		4,110
Other Assets	(Note D)	2,000
Total Assets		<u>\$ 1,482,603</u>

Liabilities

Reserve for Loss and Loss Adjustment Expenses	(Note E)	\$ 200,000
Payable to Clerks of Court	(Note F)	505,365
Expense Payable	(Note G)	415,865
Other Liabilities:	(Note H)	401,671
Total Liabilities		<u>1,522,901</u>

Surplus

Excess of Liabilities Over Assets (Unrestricted and Restricted)	(Note I)	<u>\$ (40,298)</u>
Deficiency of Assets (Unrestricted) Over Liabilities (Excluding Other Liabilities)		<u>\$ (1,032,451)</u>

The financial statements should be read together with the notes to the financial statements which are an integral part of this statement.

CANNON SURETY, LLC, IN REHABILITATION
NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER
Statement of Receipts and Disbursements

	<u>For the Month Ended February 28, 2018</u>	<u>Cumulative For the Period September 27, 2017- February 28, 2018</u>
OPERATING ACTIVITIES		
<u>Receipts</u>		
Premium Receipts (Note J)	0	23,661
Sale of Fixed Assets	0	0
Recovery of Bad Debt	0	0
Tax Recovered	0	0
Miscellaneous Receipts	47	133
Total Receipts	47	23,794
<u>Disbursements</u>		
<u>Policy Related Disbursements</u>		
Loss and Loss Adjustment Expenses	0	0
Court Costs	0	0
Interest Expense on Judgements	0	0
Total Policy Related Disbursements	0	0
<u>General Expenses and Other</u> (Note K)		
Personnel Expenses	0	0
Rent and Occupancy	0	0
Accounting Fees	0	0
Actuarial Fees	0	0
Legal Fees	0	0
Consulting Fees	0	0
Office Expenses	51	51
Furniture, EDP & Equipment Expense	0	0
Travel	328	328
Claims and Underwriting Admin Fees	0	0

The financial statements should be read together with the notes to the financial statements which are an integral part of this statement.

Bank Fees	0	483
Taxes, Licenses and Fees	0	23,691
Miscellaneous Expense	0	5
	379	24,558
Total Operating Disbursements	379	24,558
 Net Cash Provided by Operating Activities	(333)	(765)
 INVESTING ACTIVITIES		
Net (Purchases) Sales of Invested Assets	0	0
Net Investment Income	844	5,771
Net Cash Provided by Investing Activities	844	5,771
 OTHER		
Misc Receipts	0	0
Change in Deposit	0	0
Escheat Liability	0	0
Net Cash Provided by Other	0	0
 Net Increase/(Decrease) in Cash and Cash Equivalents	512	5,006
Cash and Cash Equivalents at Beginning of Period	1,017,401	1,012,907
Cash and Cash Equivalents at End of Period	\$ 1,017,913	1,017,913

The financial statements should be read together with the notes to the financial statements which are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note A: All Cash and Cash Equivalents are comprised of the checking accounts originally established by the Company and now under the control of the Rehabilitator.

All Cash and Cash Equivalents – Restricted are comprised of cash and cash equivalents with a maturity of less than 1 year and are carried at cost which approximates market value. This amount is currently on deposit with the North Carolina Department of Insurance (“Department”). These funds were required to be placed on deposit with the Department as part of the terms of licensure, and can only be used for the payment of bail bond judgments.

Note B: The components of Accounts Receivable are as follows:

Premiums due from Agents	25,110
Receivable from AABB for Rent	<u>35,910</u>
Total	\$ 61,020

The receivable from AABB for rent consists of \$23,940 paid by the Company for the period October 2016 through September 2017 and \$11,970 for the amount accrued, but unpaid, for the period October 2017 through February 2018.

Note C: Restricted assets are comprised of cash and cash equivalents with a maturity of less than 1 year and are carried at cost which approximates market value. The Build Up Fund (“BUF”) represents 77 individual accounts under the control of the Company to be used to indemnify the Company for losses and any other agreed-upon costs related to a bail bond executed by a bail bond agent. There is a corresponding liability account offsetting the asset (see Note H). The Collateral Account represents funds placed on deposit to secure specific bail bonds. There is a corresponding liability account as the funds may be returned upon resolution of the case for which the collateral was taken (see Note H). During the month of February, payments totaling \$17,203 were made from BUF accounts for satisfaction of specific bail bonds and related court costs and one individual BUF account was closed.

Note D: Other Assets represents funds deposited with the landlord for office rental. The Company was not a party to the lease agreement and it appears may not be party to a valid sublease agreement and therefore may not be able to recover the amount placed as a security deposit.

Note E: Reserves for Loss and Loss Adjustment Expenses represents an estimate of potential amounts for bonds which may go to judgment. This amount was not derived from an actuarial analysis. The Company failed to obtain a Statement of Actuarial Opinion for the year-ended December 31, 2016, as required by N.C. Gen. Stat. 58-10-415(e). The Rehabilitator has estimated this amount based on the major

NOTES TO FINANCIAL STATEMENTS

risks to the Company which are late reporting and payment on a bail bond that does not have adequate collateralization and underlying BUF or other protection. The Rehabilitator has observed, since the date of the Seizure Order, all the above risks.

Note F: Payable to Clerks of Court represent bond forfeitures which a final judgment has been entered by the courts and for which the Company is liable for payment. As of February 28, 2018, the amount reported includes \$486,850 of the total face amount of the bonds, \$6,770 of court costs, \$11,229 of interest, and \$516 of sheriff's fees. Interest continues to accrue until the judgment is satisfied. The Rehabilitator intends to vigorously pursue collection of the amounts from the bail agent and any other person who agreed to indemnify the Company from loss. Collection of amounts due is unknown and uncertain and as such, no receivable has been established.

Note G: The components of Expenses Payable are as follows:

Legal Fees	\$235,594
Accrued Interest on Certificate of Contribution	80,093
Payroll Taxes Withheld and Unpaid	47,560
Rent	31,806
2017 Accrued NC Premium Tax	17,209
Accrued Payroll & Payroll Taxes	3,366
General Expenses	<u>237</u>
Total	\$415,865

Accrued interest on the Certificate of Contribution is an approximate amount. The Rehabilitator is in the process of reviewing records to determine the exact amount due.

The liability for rent has not yet been determined since the Company occupied the office space but the lease was in the name of AABB. The amount is included to be conservative. A receivable has been set up for the amount due from AABB.

Note H: The components of Other Liabilities are as follows:

Build Up Funds	\$397,561
Collateral Held	<u>4,110</u>
Total	\$401,671

NOTES TO FINANCIAL STATEMENTS

- Note I:** On December 16, 2015, the Company entered into a Certificate of Contribution (“Certificate”) with a related party in the amount of \$700,000. According to the terms of the Certificate, the obligation evidenced by the Certificate is not a liability or claim against the Company except to the extent the principal sum is due in whole or in part in accordance with certain provisions of the Certificate. As of February 28, 2018, the principal amount is not due and as such, is classified as a part of surplus instead of as a liability. As of February 28, 2018, the principal balance of the Certificate is \$630,419.
- Note J:** The amount of Premium Receipts represents funds received from bail agents following the date of the Seizure Order. During January 2018, the Rehabilitator discovered that \$183 had been deposited by the Company into its operating account and recorded as premium income rather than being deposited into a BUF account and held as collateral.
- Note K:** During the month, the Rehabilitator paid:
- \$379 to Rehabilitator’s staff for mileage and packing supplies related to administering the rehabilitation.

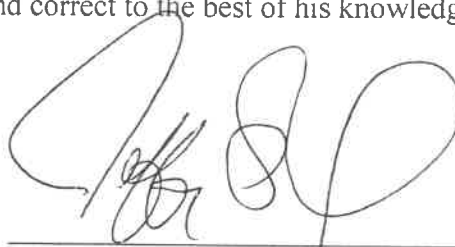
NORTH CAROLINA

WAKE COUNTY

VERIFICATION

JEFFREY A. TRENDEL, being first duly sworn, deposes and says that he is a Deputy Commissioner of Insurance for the North Carolina Department of Insurance and appointed as Special Deputy Insurance Commissioner of Cannon Surety, LLC by the Commissioner of Insurance and Rehabilitator, that he has read the foregoing Statement of Financial Position as of February 28, 2018, and the Statement of Receipts and Disbursements for the period ending February 28, 2018, and for the period from September 27, 2017, the date of the Seizure Order, through February 28, 2018, and that the contents of same are true and correct to the best of his knowledge and belief.

This the 3rd day of April, 2018.



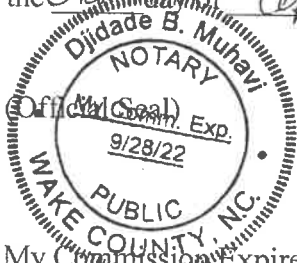
Deputy Commissioner of Insurance and
Special Deputy Insurance Commissioner for
Cannon Surety, LLC.

NORTH CAROLINA

WAKE COUNTY

Sworn to and subscribed before me this

the 3rd day of April, 2018.



My Commission Expires:

9/28/22

Djidade B. Muhavi
Notary Public