

2011 ANNUAL REPORT



NORTH CAROLINA RATE BUREAU



North Carolina Rate Bureau

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General Organizational Information

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General Manager's Report



Ray Evans
General Manager

While it doesn't seem possible to me, a year has passed since our last annual report. From my point of view, it has been a good one.

On the easy-to-identify-and-enumerate side, there were big changes in workers compensation assigned risk. We made timely filings for most lines, and there were many rule and manual changes. Overall, we continued to fulfill our statutory responsibilities and at the same time become more effective and efficient.

Even though workers compensation assigned risk activity is down, ultimately we believe, as the economy recovers, the level of activity will rebound; as a result, we continue to fine-tune the systems and skills necessary to operate smoothly. One result of diminished activity, however, is that we have reduced the number of servicing carriers to two rather than the four in former years. While a difficult decision, so far it is working well.

The Rate Bureau has been refining the rate promulgation processes for some time. Thanks to help from many sources, the result has been a review only of private passenger auto and workers compensation. The exception is residential property, where litigation over the past several years has slowed our efforts.

This was the year of the "long session" of the North Carolina Legislature. While we do not lobby and do not take sides, there were some two dozen bills impacting property casualty insurance. Therefore, a good deal of time was devoted to explanations, requests for data and examining the wording and effects of bills — all in the background, and again, all without taking sides.

Finally, I have been pleased during the past several years that many of our folks are recognized by industry groups for their knowledge, leadership and skill. A current example is Sue Taylor, the chair of a WC industry data communications group, CDX. This program provides a forum for exchanging data and is at a critical point in determining if, when and how a fundamental piece of the operating system is to be replaced.

As we move forward in our efforts to be more effective in our responsibilities, we give our thanks once again to those of you participating on the Governing Committee and other committees and task forces for your help, support and knowledge.

Message from the Chair of the Governing Committee

As I stop and take the time to look back at my first year as chair of the Governing Committee, it seems to have passed very quickly. I am sure that is because of how busy we were. In 2011, the Governing Committee had discussions on all of the lines of insurance that the Bureau oversees. Numerous rate and forms filings were made during the year to ensure that we provide the necessary service to the policyholders in North Carolina as well as to the insurance industry. Thanks to the Automobile, Property and Workers Compensation committees and all of the subcommittees for their efforts to get this work done accurately and timely.

Our focus this year was to continue to work toward annual rate reviews in each of the products. We were able to complete work on a dwelling filing which resulted in a property rate hearing with the Department of Insurance. Staff and counsel did an excellent job preparing for this hearing and presented our concerns well. Thanks to them for their efforts on our behalf.

This year also presented an active legislative session with numerous insurance issues under review. Staff kept the Governing Committee informed of each of the bills under review and provided data when requested to assist with these discussions. This was no easy task, given the large number of bills under review during the session.

Keeping up with all of these items required many meetings for the Governing Committee. Time is a precious resource, and I do appreciate the time each member of the committee has extended to the Rate Bureau to assist with each of these important decisions. I deeply appreciate the support of the committee, staff, and counsel during this very busy year.

Sincerely,

Amy Powell, Nationwide Mutual Insurance Company
Chair, NCRB Governing Committee

Committee Members

Governing Committee			
Members	Representative	Members	Representative
Allstate Insurance Company	Bill Payne	NC Farm Bureau Mutual Ins Company	Roger Batdorff
American Home Assurance Co	Ira Feuerlicht	State Farm Mutual Automobile Ins Co	Alan Bentley
Auto Owners Insurance Company	Drew Klasing	Travelers Indemnity Company	Kristina Barronton
Cincinnati Insurance Company	Jim Gron	United Services Automobile Assoc	Dan Pickens
Hartford Fire Insurance Company	Rajiv Iyer		
Integon Indemnity Corp	Art Lyon	Non-voting Members	
Liberty Mutual Ins Company	Mike Grove	Public Member	Max Offerman
Nationwide Mutual Ins Company*	Amy Powell	Public Member	John Wei

*chair

Automobile Committee	
Members	Representative
Allstate Insurance Company	Christopher Stoll
GEICO Indemnity Company	Russell Ward
Hartford Fire Insurance Company	Michael Ma
Integon Indemnity Corporation	Art Lyon
Kemper, A Unitrin Business	Kimberly Burns
Liberty Mutual Insurance Company	Michael Grove
Nationwide Mutual Ins Company	Stephen Harter, Mark McGhiey
NC Farm Bureau Mutual Ins Co	Roger Batdorff
Progressive Casualty Insurance Co	Kevin McGee
State Farm Mutual Automobile Ins Co*	Kathy Popejoy
Travelers Indemnity Company	Jonathan Konrad
United Services Automobile Assoc	Lisa Sukow

Personal Auto Policy Subcommittee	
Members	Representative
Allstate Insurance Company*	Bob Lorch
Nationwide Mutual Insurance Co	Daniel Meister, Patti Szlosek
State Farm Mutual Automobile Ins Co	Kevin Nicklas

*chair

Property Committee	
Members	Representative
Allstate Insurance Company	Shantelle Thomas
Amica Insurance Company	Tom Goodale
Erie Insurance Exchange	Kristopher Marrison
Nationwide Mutual Insurance Co	Kathy Southern
N.C. Farm Bureau Mutual Ins Company	Bob Tart
Penn National Insurance Company	Chuck Uckele, Pat Lovell
State Farm Mutual Automobile Ins Co*	Bob Messier
Travelers Indemnity Company	Soledad Mune
United Services Automobile Assoc	Dan Pickens
Unitrin Auto and Home Ins Company	Kimberly Burns

Property Rating Subcommittee	
Members	Representative
Allstate Insurance Company*	Shantelle Thomas
American Bankers Ins Company	Dina Olsen
American Modern Home Ins Co	Sally Kressin
Foremost Insurance Company	Dave Kelly
Horace Mann Insurance Company	Reid McClintock
Nationwide Mutual Insurance Company	Sara Behrend
NC Farm Bureau Mutual Ins Company	Roger Batdorff
State Farm Mutual Automobile Ins Co	Kathy Popejoy
Travelers Insurance Company	Soledad Mune
United Services Automobile Assoc	Christopher Maloy

Property Forms Subcommittee	
Members	Representative
Allstate Insurance Company	Christy Hradek
American Bankers Ins Co of Florida	Dina Olsen
American Modern Home Ins Co	Angela Morrow, Heather White
Foremost Insurance Company	Dave Kelly
Nationwide Mutual Ins Company*	Daniel Meister
NC Farm Bureau Mutual Ins Co	Bob Tart
Kemper	Susan Fiorentino

*chair

Workers Compensation Committee	
Members	Representative
American Home Assurance Co	Ira Feuerlicht
Amerisure Insurance Company	Brent Otto
Builders Mutual Insurance Company*	Jerry Visintine
Companion Property & Casualty Co	Tom Walsh
Harleysville Mutual Insurance Co	John Zulueta
Hartford Accident & Indemnity Co	Melinda Thompson
Key Risk Insurance Company	John Godfrey
Liberty Mutual Insurance Company	John Walsh
Maryland Casualty Company	Jeff Jensen
NC Farm Bureau Mutual Ins Co	Roger Batdorff
PA National Mutual Casualty Ins Co	Alan Stowe
Travelers Indemnity Company	Jeffrey Schmidt

Workers Compensation Forms Subcommittee	
Members	Representative
Companion Property & Casualty Co	Susan Caton
Liberty Mutual Insurance Company	Dave Hall
Maryland Casualty Company	John Knoebel
Travelers Indemnity Company	Cody Giroux
Union Insurance Company*	John Elwonger

*chair

Insurance Operations



Sue Taylor
Director, Insurance Operations

Core values are principles that guide an organization’s internal conduct as well as its relationships with customers. The Bureau developed six core values many years ago that are continually used as a road map for all associates. Even through the cyclical nature of the insurance business, core values are used to ensure that the Bureau stays true to the course and guide the Bureau to fulfill faithfully and diligently the obligations of the Organization as set forth in the statutes.

The commitment of the committees, subcommittees and task forces during 2011 remained strong. Numerous meetings and telephone conferences were held, and input from the member companies helped the Bureau fulfill the obligations of the Organization. Discussion topics included proposed filings, legislative agendas and strategy-setting.

The continual commitment of the Bureau’s legal counsel and advisors was very evident in 2011 in the numerous filings and lawsuits and in the dwelling hearing that took place during the year.

Finally, the commitment of Bureau associates in servicing customers with whom they work on a daily basis needs to be recognized. Special appreciation is extended to all who have contributed to the success of the Rate Bureau in 2011.

The following summarizes the accomplishments over the past year.

Personal Lines

Automobile

For Private Passenger Automobile, the Rate Bureau is required to make a filing every year by February 1. This year it was decided to file only a review of the data with the Department of Insurance and not request a revision in the private passenger automobile rates. The next filing will be made on or before February 1, 2012.

On March 8, 2011, the Rate Bureau filed a revision to Rule 9 of the Personal Auto Manual. This revision amended the rule so that when endorsing a Personal Auto Policy midterm, the carrier can use the rates in effect at the time the change is made or the rates in effect at the inception of the policy. The previous rule required the specific use of only one method. This revision offers the member companies the option of which method to use and provides the member companies the ability to implement the change as soon as possible. The filing became effective on June 16, 2011.

On May 11, 2011, the Rate Bureau filed a revision to Rule 19.F of the Personal Auto Manual concerning classic autos. The revision provides that, when applying a symbol to a classic auto, the symbol for the base model year should be used in lieu of the model year of the vehicle. This filing was approved on May 13, 2011, and becomes effective November 1, 2011.

The Rate Bureau filed a revision to the Personal Auto Manual Rule 4.D concerning single and multi-car risks to state explicitly in the rule that if a multi-car risk is split onto multiple policies, any resulting single-car policies are not eligible for a multi-car discount. There is an exception if the company’s policy processing systems do not permit insuring all vehicles in the same policy. This revision was filed on August 10, 2011, and becomes effective the first day of the month following six months after the Commissioner’s approval.

Safe Driver Insurance Plan

As required in the General Statutes, the Bureau continues to provide a mechanism for policyholders to appeal “points” that have been charged as a result of at-fault accidents. Below is a summary of the results of the appeal of those “points.”

	2011	2010	2009
In Favor of Insured	1	5	11
In Favor of Company	3	11	7

CORE VALUES

- Commitment*
- Integrity*
- Respect*
- Talents*
- Ownership*
- Consistency*

Property

Shortly after the consent order was signed in the Homeowners rate filing in December 2008, a group of counties, municipalities and citizens from the 20 coastal counties filed multiple actions seeking review of the Commissioner's ordered rate increases. The plaintiffs petitioned the Commissioner, appealed the consent order to the Wake County Superior Court and appealed directly to the North Carolina Court of Appeals. The appeal to the Court of Appeals was dismissed. The petition to the Commissioner and the appeal to the Superior Court were likewise dismissed. Plaintiffs' appealed the Superior Court dismissal to the Court of Appeals, and the Court of Appeals affirmed the dismissal by the Superior Court. Plaintiffs' unsuccessfully sought review of both Court of Appeals' opinions in the Supreme Court. The ultimate result was that the consent order between the Commissioner and the Rate Bureau was upheld.

On January 4, 2011, the Rate Bureau submitted a rate filing proposing revised rate levels for the Dwelling Policy Program. The filing proposed an overall rate level change of -7.3% for fire and +36.1% for extended coverage. In addition, the filing proposed a revision to the windstorm and hail exclusion credits as well as revised territory definitions that will track the territory definitions in the Homeowners Policy Program. The Commissioner of Insurance did not approve the proposed rate level change and called for a public hearing which began on July 25, 2011. Following conclusion of the public hearing, the Commissioner has 45 days to issue an order. This item remains pending as of the writing of this report.

On February 17, 2011, the Rate Bureau filed optional higher-deductible factors for homeowners with the Department of Insurance. After the submission of several data requests,

the Rate Bureau and Department of Insurance reached a settlement as to the appropriate factors to be implemented. This filing was approved and became effective on August 11, 2011.

House Bill 1305 required the Bureau to file hurricane mitigation credits for dwellings under the Bureau's jurisdiction. These credits were filed and approved for use beginning May 1, 2011. Throughout the year, Rate Bureau staff has conducted training sessions on the implementation of the Hurricane Mitigation Program. These training sessions included a series of three webinars and a series of "in person" training sessions held in Cary, Wilmington, Greenville and Kitty Hawk which provided two hours of continuing education for agents.

The Rate Bureau filed a Homeowners Excess Policy Program on August 12, 2011, with the Department of Insurance. The purpose of this program is to provide a mechanism for companies to write homeowners coverage above the \$750,000 maximum that the North Carolina Insurance Underwriting Association can write. This Program remains pending before the Department of Insurance as of the writing of this report.

Workers Compensation

In the North Carolina General Assembly, Workers Compensation was a big topic in 2011, with a new reform bill passed into law. There are several new provisions of the law, including allowing communication between the doctor and the insurance company, increasing benefits for death claims, reducing the number of commissioners at the North Carolina Industrial Commission, defining "suitable employment" and

limiting temporary total disability to a maximum 500 weeks, in most cases.

Assigned Risk

The end of 2010 brought to a conclusion the Bureau's three-year contracts with the assigned risk carriers that provide services to member companies of the National Pool. After a request for proposal and evaluation by Bureau staff, a decision was made that, effective January 1, 2011, the number of servicing carriers for North Carolina would be reduced from four to two.

The current servicing carriers are:

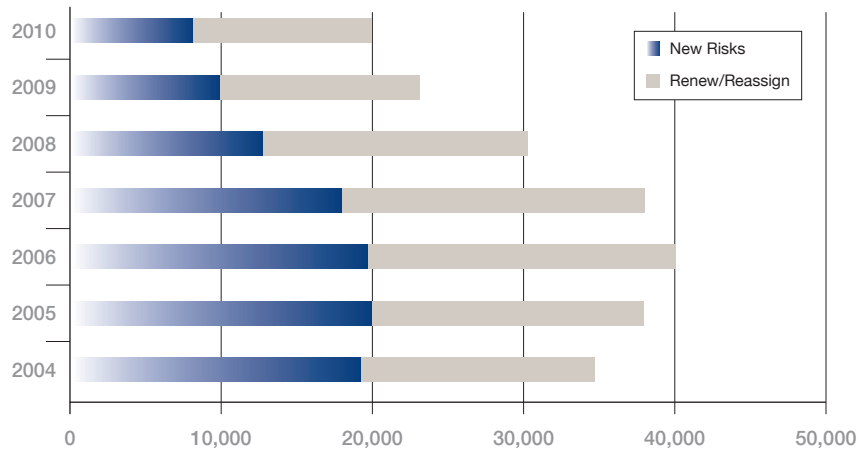
- Riverport Insurance Company
- Travelers Property & Casualty Company of America

In addition, eight carriers receive assignments on a direct basis. The direct assignment carriers include:

- ACE American Insurance Company
- American Interstate Insurance Company
- American Zurich Insurance Company
- Auto Owners Insurance Company
- Cincinnati Insurance Company
- Continental Casualty Company
- Granite State Insurance Company
- Hartford Underwriters Insurance Company

North Carolina's Assigned Risk Market continues to depopulate through 2011. Through June, the number of policies is below 2010 by 18.9%, and the total premium volume is below 2010 by 14.7%.

Assigned Risk Volume



Assigned Risk continued to see an increase in the utilization of the electronic application system (ManageAR) over the past year. The agent utilization is currently at 89%, an increase in usage of seven percentage points over the past 12 months. The snapshot below shows the frequency with which agents have utilized the ManageAR system over the past 12 months.

184	Highest number of applications submitted by an agency in a year
17	Number of agencies submitting more than 50 applications per year
1,192	Number of agencies submitting at least 1 application per month
402	Number of agencies submitting 1 application per year

The electronic funds transfer (EFT) feature of the ManageAR system is used for electronic submission of the deposit premium. On June 30, 2011, agent utilization of EFT was at 67%. This is an increase in usage of three percentage points over last year. To encourage agents to use EFT as their method for payment of deposit premium, enhancements to the system have been made. These enhancements are expected to make the system more secure and user friendly, thereby encouraging agents to use the EFT process more frequently.

Classification and Ownership

Over the past 12 months, the Classification and Ownership unit processed 3,499 ownership work items. This resulted in 2,458 ownership rulings. They also responded to 2,435 classification code inquiries.

Disputes

The volume of workers compensation disputes received in the first half of 2011 show the number declining. Issues involving incorrect classification codes, use of uninsured sub-contractors and non-compliance with information being requested at audit have been the top three categories for disputes during this period.

Over the past 12 months, there has been a shift in how disputes are being submitted to the Bureau. In prior years, most disputes were filed directly with the Bureau by employers or agents on behalf of the employer. Over the past year, the majority of disputes have come by way of attorney representation.

Take-out Credits

For 2010, there were 110 participating carriers in the Take-Out Credit (TOC) Program and a total of \$4,154,932 in Take-Out Credits allowed. Even with the increase in number of participating carriers for the 2010 TOC program, the credits were down from the prior year.

Web Applications

In January of 2011, ManagePolicy Phase II was released to NCRB's member companies. Since implementation, 7,261 transactions have been entered, and 532 distinct users have accessed the ManagePolicy system. Carriers are provided next-day access to all policy transactions and are able to see the status of data submissions within 24 hours. This new application has eliminated the need for the Bureau to mail hard-copy rejections and policy processing reports to carriers.

The Bureau website has a number of web applications available for member company use. These include Experience Mod Lookup, ManageAR, ManageUSR and WC Ratings.

Data Operations

Data Quality

The Data Quality Unit is responsible for the reconciliation of carrier data as well as the promulgation of experience modifications. This unit was also previously responsible for the entry of hard-copy policy data. The shift to electronic reporting has allowed the unit to provide a greater focus on the actual quality of the data being reported.

The Bureau issued 37,811 workers compensation experience modifications last year. Additionally, the Bureau collected 528,152 transactions during 2010, including new and renewal policies, cancellations, reinstatements and endorsements.

Data Collection and Data Analysis

The Bureau collects workers compensation and personal lines data primarily for use in rate filings. Annually, the Bureau collects data from the statutory Property and Casualty Annual Statement and Insurance Expense Exhibits. The Bureau also collects Private Passenger Automobile, Homeowners, Dwelling and Mobile Homeowners Expense Experience and Installment Payment data. The use of this data is for the preparation of rate filings, apportionment of expenses and determination of expense allowances and assessments. Over the last several years, Bureau staff has engaged in a more detailed analysis of the data submitted. Bureau staff spends a considerable amount of time in the review of the data for accuracy. In 2011, process improvements were made to the data-review process.

Shared Services

Information Services

The Information Services department (IS) is responsible for Communications/Customer Service, Process Documentation/Process Improvement, Systems Availability and Systems Development.

The customer service area handles approximately 4,000 support calls and emails per month from external customers via the Information Center, and the Service Desk handles an additional 250 calls and emails from internal associates. In 2011, the Information Center implemented multiple improvements to its existing processes, including call monitoring and quality auditing. Efforts are underway to revamp the customer survey and implement scorecard metrics.

Technology has become an increasingly important tool in enabling customers to interact with the Bureau more efficiently. In 2011, this area focused on re-designing the infrastructure to deploy a multi-layered security strategy. In addition to infrastructure changes, several core systems underwent a security audit to assess potential risk exposure in these custom applications. Enhancements are already underway for these applications to increase the Bureau's security posture.

The Process Documentation Services Team is tasked with the responsibility of promoting a process-driven environment supported by processes that are identified, documented, measured, managed and improved. Process documentation is the precursor to superior customer satisfaction, overall reduction in errors and lower costs. In 2010, this team completed documentation of all critical processes for Insurance Operations. In 2011, Insurance Operations has used this documentation as a resource to evaluate and implement process improvements.

Human Resources

Human Resources (HR) is the strategic and comprehensive approach to managing the Organization's most valued assets – the people. HR responsibilities include administering HR policies, programs and practices; providing a safe work environment; professional development opportunities and work-life balance for our associates. A main project in HR this year includes the implementation of eAppraisal and eSuccession, strategic talent management software for all associates. eAppraisal will incorporate goal alignment and management, associate appraisals, associate journals, competency management, development planning and talent profiles for associates. eSuccession will offer succession and career planning.

On-site training this year consisted of 12 wellness classes through our partnership with WakeMed Hospital, three Microsoft Office classes and seven professional development classes.

The Bureau has a strong wellness initiative that includes:

- WeightWatchers at Work
- Partnership with the NC Prevention Partners
- Annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10,000 steps a day
- Wellness screenings held on-site each July
- Flu shots provided for associates on-site
- Certification in First Aid, CPR and AED for a third of the workforce through the American Red Cross

Community service involvement by associates this year included the Susan G. Komen Race for the Cure. Forty associates were participants on the team for the race/walk. Various fundraisers occurred in the first half of the year, and the fundraising goal was exceeded. In addition, support of the United Way will continue with various events during the fall campaign.

Associate service milestones this year include:

- 2 associates celebrating 5 years
- 3 associates celebrating 10 years
- 1 associate celebrating 15 years
- 2 associates celebrating 25 years
- 2 associates celebrating 30 years
- 1 associate celebrating 45 years

The experience the Bureau associates provide to member companies throughout this year and each year is as follows:

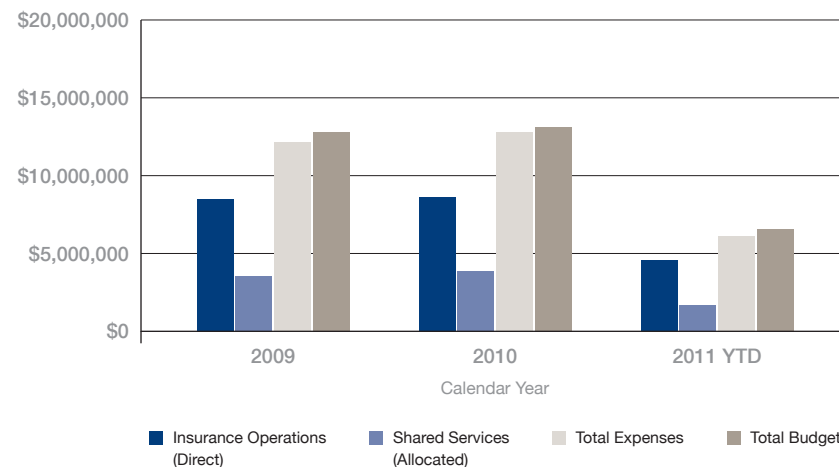
Years of Service		
Years	# of Employees	% of Employees
0-9 Years	47	67%
10-19 Years	11	16%
20-29 Years	4	6%
30-39 Years	6	8%
40+ Years	2	3%
Total	70	100%

Finance

Through a concerted and conscientious effort, the expenses of the North Carolina Rate Bureau have remained within budget for another year. Maintaining that streak will be challenging for the remainder of 2011, as we face increasing costs associated with the recent dwelling rate filing hearing, the physical facility, relocation and lease negotiations and banking services. While the final expenses for 2010 were within the approved budget for 2010, they were up approximately 4.2% compared to the prior year. Through the first six months of 2011 the Rate Bureau's administrative expenses remain within budget and are less than 1% higher than they were over the same period last year.

Assessment income increased approximately 9% compared to the prior year as other sources of income have decreased substantially. Income from charges and fines for keying policies, delinquent USRs, late data reporting and cancellation/reinstatement activity decreased about 23% — or \$133,000 — from the report period a year ago. The increase in electronic exchange of policy information has reduced or

North Carolina Rate Bureau Administrative Expenses



eliminated some of the aforementioned income sources while improving efficiencies.

The total expenses of the Rate Bureau include the direct costs incurred as well as the allocated costs of the departments whose expenses are shared with the Reinsurance Facility and the Insurance Guaranty Association. The table and chart on this page show a summary of the direct and allocated expenses for the previous two years and the first half of 2011. The 2009 final expenses will be adjusted by other income and miscellaneous items and reapportioned to all member companies during the 4th quarter of 2011 — similar to the process in prior years.

Administrative Expenses	2009	2010	Thru June 2011
Insurance Operations (Direct)	\$ 9,257,311	\$ 9,603,428	\$ 5,000,334
Shared Services (Allocated)	3,421,580	3,604,233	1,834,635
Total Expenses	\$ 12,678,891	\$ 13,207,661	\$ 6,834,969
Total Budget	\$ 13,086,268	\$ 13,667,394	\$ 7,106,061

NCRB Management Staff



Karen Byrd
Manager
WC Underwriting Services



Delisa Fairley
Manager
Insurance Data Operations



Betty Hurst
Manager
Workers Compensation



Tim Lucas
Manager
Personal Lines



Lynne Mays
Supervisor
WC Data Quality



Rebecca Williams
Manager
Data Analysis

Organization Shared Resources



Shelley Chandler
Director
Information Services



Vicki Godbold
Director
Human Resources and
Administrative Services



David Sink
Director
Finance

North Carolina Rate Bureau

BALANCE SHEET

Year Ending	August 31, 2011 (Preliminary)	August 31, 2010
Assets		
Cash & Investments – Unrestricted	\$1,640,200	\$1,455,585
Cash & Investments – Restricted	563,107	568,993
Assessments Receivable	30,000	1,685
Accounts Receivable	50,000	86,881
Other Assets	8,982	3,000
Total Assets	\$2,292,289	\$2,116,144
Liabilities & Fund Equity		
Refund to Carriers Payable	\$50,100	\$50,098
Retiree Insurance Payable – Restricted	562,107	568,291
Other Benefits Payable – Restricted	1,000	702
Other Liabilities	(18,000)	(17,854)
Total Liabilities	\$595,207	\$601,237
Fund Equity	1,697,082	1,514,907
Total Liabilities & Fund Equity	\$2,292,289	\$2,116,144

INCOME STATEMENT

Year Ending	August 31, 2011 (Preliminary)	August 31, 2010
Income		
Assessments Income	\$13,030,800	\$11,942,274
Membership Fees Income	764,250	751,450
Late Data Reporting Charges	14,300	9,000
Policy Keying Charges	-	66,850
Delinquent USR Charges	424,000	477,100
Cancellation & Reinstatement Charges	-	17,770
Other Income	9,650	5,036
Total Income	\$14,243,000	\$13,269,480
Expenses		
Legal, Consulting & Other Outside Services	\$7,625,000	\$7,237,577
Salaries & Administration Expenses	3,210,000	3,110,592
Other Operating Expenses	2,965,000	2,817,353
Total Expenses	\$13,800,000	\$13,165,522
Net Income/(Loss)	\$443,000	\$103,958



North Carolina Rate Bureau

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