



innovation

2008 North Carolina Reinsurance Facility ANNUAL REPORT



## core values

### **commitment**

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Faithfully and diligently fulfill the obligations of our Organizations as set forth in the statutes.

### **integrity**

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

### **respect**

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Treat your fellow associates and those you serve on behalf of the Organizations with dignity and respect.

### **talents**

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Continually strive to improve the Organizations through the use of every associate's talents and creativity.

### **ownership**

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Encourage participation and a sense of ownership from the members of our Organizations.

### **consistency**

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



# North Carolina Reinsurance Facility

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## general organizational information

NCRF Main Phone Number .....	919-783-9790
Facsimile .....	919-783-0355
Website Address .....	<a href="http://www.ncrb.org/ncrf">www.ncrb.org/ncrf</a>
Physical Address .....	5401 Six Forks Road Raleigh, NC 27609

## management contacts

Ray Evans .....	General Manager 919-783-9790 .....	<a href="mailto:rfe@ncrb.org">rfe@ncrb.org</a>
Edith Davis .....	Director, Reinsurance Facility 919-582-1006 .....	<a href="mailto:edt@ncrb.org">edt@ncrb.org</a>
Jannet Barnes .....	Manager, Compliance 919-582-1022 .....	<a href="mailto:jbb@ncrb.org">jbb@ncrb.org</a>
Tim Lucas .....	Manager, Automobile 919-582-1021 .....	<a href="mailto:ftl@ncrb.org">ftl@ncrb.org</a>
R. Mike Newton .....	Manager, Claims 919-582-1018 .....	<a href="mailto:rmn@ncrb.org">rmn@ncrb.org</a>
David Sink .....	Director, Finance 919-582-1012 .....	<a href="mailto:des@ncrb.org">des@ncrb.org</a>
Vicki Godbold .....	Director, Human Resources & Administrative Services 919-645-3170 .....	<a href="mailto:vcg@ncrb.org">vcg@ncrb.org</a>

## general organizational information

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 29, 2008, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

# message from the chairman

This is the 35th year that the North Carolina Reinsurance Facility has provided a great service to North Carolina insureds. Drivers who would otherwise be uninsurable can obtain insurance for the protection of the general public. Protecting the public from uninsured drivers at an affordable premium is a win-win proposition for all North Carolinians.

This has been a very active year. A total revision and update of the commercial auto manual is well underway, and the File Transfer Protocol (FTP) phase of the EDGE information system has been implemented, providing better, cheaper, and more secure reporting for the member companies. More functionality is coming, which will provide greater access and information to both the member companies as well as the Facility staff.

Recent changes in the financial markets have been monitored closely by the Investment Committee. The Facility's investments are very low risk, and there has been minimal impact by the market changes. We have and will continue to maintain an extremely conservative investment strategy and continue to abide by our strict investment guidelines.

The Facility works well because of the efforts of so many. Industry and agent representatives serving on the Board, task forces, and committees oversee its successful operation. Various experts consult with these groups and offer important information and perspective. We have always been fortunate to have a professional and knowledgeable staff with many years of experience managing our operations. They constantly look for ways to improve services and provide manageable data for more efficient operations. Many thanks to the professional staff of our Reinsurance Facility and to the former Board members and employees who laid the foundation for a well managed operation.

Sincerely,

*Richard C. Yarbrough*

Richard C. Yarbrough CPCU, CIC  
Chair, NCRF Board of Governors



## Board of Governors

Responsibility for management is vested in a fifteen-member Board of Governors. There are twelve voting members; seven member insurance companies; five agents appointed by the Insurance Commissioner; two nonvoting public members appointed by the Governor; and the Insurance Commissioner, who is a member of the Board ex-officio without vote. Eight meetings of the Board were held during the year, including three telephone conferences.

### member representative

Allstate Insurance Co. . . . . Bob Blystone  
 Atlantic Casualty Insurance Co. . . . . Richard Yarbrough\*  
 Integon Indemnity Corporation . . . . . Art Lyon  
 Nationwide Mutual Insurance Co . . . . . Amy Powell  
 New Hampshire Insurance Co . . . . . Gary Sanginario  
 Travelers Indemnity Co. . . . . Jonathan Konrad  
 Universal Insurance Co . . . . . Greg Spray  
 \*chair

### agent members

Independent Insurance Agents of NC . . . . . Steven D. Smith  
 Apptd. by the Commissioner of Insurance . . . W. Hutson Wester, II  
 Apptd. by the Commissioner of Insurance . . . John E. Wooten, III  
 Auto Insurance Agents of North Carolina . . . Jeffrey W. Butler  
 Independent Insurance Agents of NC . . . . . Tim Ward

### public members

J. David Walker . . . . . Lumberton, NC  
 Steve J. Whitley . . . . . North Wilkesboro, NC

### ex-officio members

James E. Long . . . . . Commissioner of Insurance

## Standing Advisory Committees

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. The Accounting and Statistical Committee is a joint AIPSO and NCRF committee and is chaired by New Hampshire Insurance Company. In addition, there are several additional specialty advisory groups that perform similar tasks for the Facility throughout the year.

The following committees met during the report period:

### audit committee

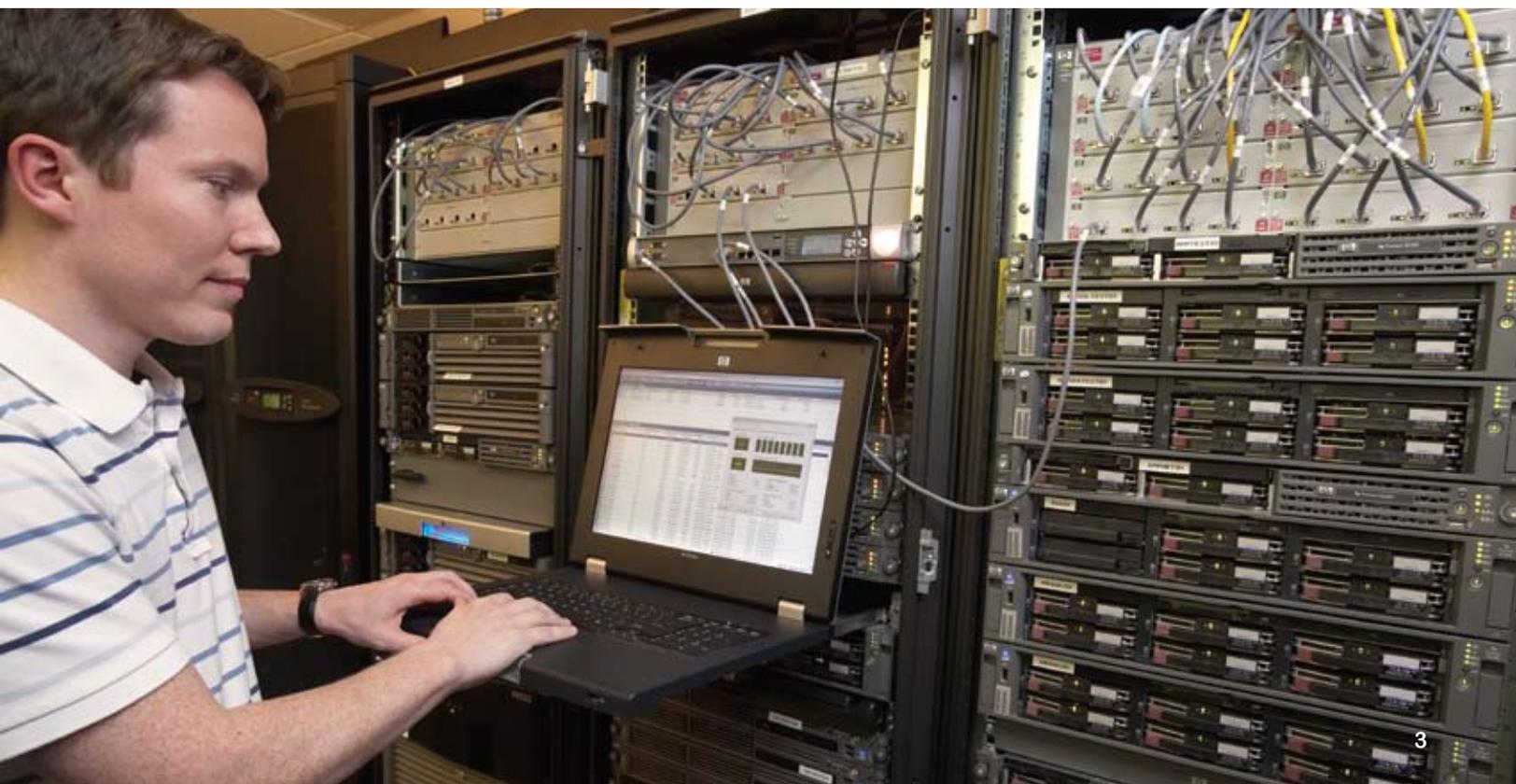
#### member representative

Liberty Mutual Insurance Co. . . . Ronald H. Robertson, Jr., CPA\*  
 NC Farm Bureau Mutual Insurance Co. . . . . Brian Top  
 Nationwide Mutual Insurance Co . . . . . Kathy Southern  
 Pennsylvania Nat Mut Casualty Ins Co . . . . Charles J. Uckele  
 State Farm Mutual Automobile Insurance Co . . . Alan Bentley  
 Travelers Indemnity Co. . . . . Jonathan Konrad  
 Agent . . . . . Steven D. Smith  
 \*chair

### compliance committee

#### member representative

Integon Indemnity Co. . . . . Seth Kernodle  
 Nationwide Mutual Insurance Co . . . . . Kathy Southern  
 Universal Insurance Co . . . . . Gregory L. Spray \*  
 Agent . . . . . W. Hutson Wester, II  
 \*chair



**investment committee**  
**member** **representative**

Allstate Insurance Co. . . . . Douglas Dupont  
 Nationwide Mutual Insurance Co . . . . . J. Kevin King\*  
 State Farm Mutual Automobile Ins Co. . . . . Alan Bentley  
 \*chair

**rating committee**  
**member** **representative**

Atlantic Casualty Insurance Co. . . . . Mark Caughron\*  
 Liberty Mutual Insurance Co. . . . . Cheryl B. Watts  
 Nationwide Mutual Insurance Co . . . . . Mike Barnes  
 NC Farm Bureau Mutual Insurance Co. . . . . Roger N. Batdorff  
 Travelers Indemnity Co. . . . . Todd Hoivik  
 Agent . . . . . Tim Ward  
 \*chair

**task force on expense allowances**  
**member** **representative**

Allstate Insurance Co. . . . . Bob Blystone  
 American International South Insurance Co. . . Gary T. Sanginario  
 Nationwide Mutual Insurance Co . . . . . Isaac Adams\*  
 Sentry Insurance Co. . . . . Ethan Vaade  
 State Farm Mutual Automobile Insurance Co. . . . . Avana Nice  
 Agent . . . . . Tim Ward  
 \*chair

**task force on recoupment**  
**member** **representative**

Nationwide Mutual Insurance Co . . . . . Isaac Adams  
 NC Farm Bureau Mutual Insurance Co. . . . . Roger N. Batdorff  
 Progressive Casualty Insurance Co. . . . . Kate Terry  
 Southern Guaranty Insurance Co. . . . . Stephen H. Cone  
 State Farm Mutual Automobile Insurance Co. . . . . Alan Bentley\*  
 Travelers Indemnity Co. . . . . Jonathan Konrad  
 Agent . . . . . Steven D. Smith  
 \*chair

**technical advisory group**  
**member** **representative**

Allstate Insurance Co. . . . . Essie Williams  
 Atlantic Casualty Insurance Group . . . . . Greg Ricker  
 Discovery Insurance Co . . . . . Denise Jefferson  
 Guaranty National Insurance Co . . . . . Diane Wirkus  
 Integon Indemnity Corporation . . . . . Mary Anne Peele  
 Nationwide Mutual Insurance Group . . . . . Larry Donaldson  
 New Hampshire Insurance Co . . . . . Pete Cotton  
 NC Farm Bureau Mutual Insurance Co. . . . . Brian Top  
 Progressive Insurance Co. . . . . Kate Terry  
 Safeco Insurance Co. . . . . Jeff Castle  
 Southern General Insurance Co. . . . . Marguerite Clark  
 State Farm Mutual Insurance Co . . . . . Larry Shifflet  
 Travelers Indemnity Co. . . . . Annette Whitaker  
 Universal Insurance Co. . . . . Angela Smitherman



Raymond F. Evans, Jr., CPCU  
general manager



## general manager's report

Among our many tasks undertaken this year, perhaps the most important has been protecting the Facility's reputation for honesty, integrity, accessibility, and professionalism. If folks don't have confidence in what we say, it is difficult to complete effectively our primary tasks of getting the right premium, paying claims properly, and administering the financial matters that result.

The bottom line of how we do this is in executing the intent of the enabling statute in the best, most sincere, honest, and transparent way possible. I believe this thinking has served us well this year and guided us in dealing with a diverse set of challenges, including being IT developers, determining how taxi cabs are rated, responding to financial markets, and participating in a Legislative study committee.

Perhaps the most important issue facing us has been, and appears to continue to be, how we manage and invest the money that the Facility operation generates. As noted in other parts of this report, the Facility has considerable reserves and cash flow for which we are responsible to maintain and invest in safe, conservative investments that generate a reasonable return. The good news is that thus far, and we are confident this is going to continue, we have been successful in navigating the turbulent financial waters with the help of our staff, Board input, oversight by the Investment Committee, and a host of vendors and experts.

This coming year, there will be a change we have not seen for 24 years. The Commissioner is going to be someone other than Jim Long. While we have not always seen eye to eye, Jim Long has been an imposing and important part of the insurance business in North Carolina. I can't imagine the Commissioner retiring, but whatever his future plans, I hope you join me in wishing him well. For sure, next year will be different.

Thanks to each of our partners, Board members, committee members, and associates for working so hard to ensure that the Facility can effectively fulfill its obligations.





# Edith T. Davis

Director,  
Reinsurance Facility

*Edith Davis*

## management discussion & analysis

Created by the NC Legislature to replace an Assigned Risk Plan, over its 35-year existence, the Facility has annually reinsured a high of 30% of the auto liability market and a low of 23% of the auto liability market in NC. Since its inception, it has reinsured around \$14 billion in auto liability for the policyholders of North Carolina. A few of the original staff still work here. A few of the Board and committee members remember the early days, although most of the names and faces have changed. But for the most part, the Facility remains “business as usual.”

### rate changes

Ceded “clean risks” comprised approximately 70% of the total ceded exposures. By law, the most this group may only be charged is the voluntary manual rate. In 2007, no changes were filed by the Rate Bureau for the voluntary private passenger auto rates. The Rate Bureau’s February 1, 2008 voluntary auto rate filing requested a liability increase of 16.5% for automobiles and 0.7% for motorcycles. Following a public hearing, the Commissioner disapproved the filed increases and ordered a 14.5% liability decrease for automobiles and an 11.2% decrease for motorcycles. The Rate Bureau Governing Committee voted to appeal the Commissioner’s order and to implement an overall increase of 12.8% for automobiles and 0% for motorcycles to be effective January 1, 2009.

The ceded private passenger “other-than-clean” risks comprised about 26% of total ceded exposures. In June 2008, the Facility filed a base rate change to the “other-than-clean” risks, including average rate level changes of 10.4% for bodily injury, 12.4% for property damage, and 0.7% for medical payments coverages, averaging 10.8% over rates presently in effect. The filing also included a rate level change of 2.2% for the motorcycle liability coverages. The revised rates apply to all new and renewal policies effective on and after October 1, 2008.

There was no rate change filed or implemented for the remaining 4% of exposures in the commercial line of business during the report period.

### clean risk recoupment

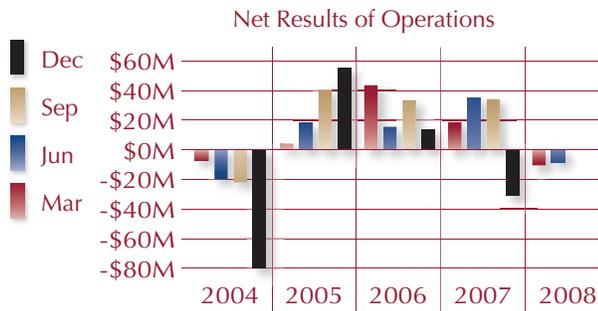
North Carolina law requires carriers to “take all comers,” and the risks for whom the voluntary rates are inadequate are often ceded to the Facility. While the Facility establishes rates for other-than-clean risks that are actuarially sound, the rates for “clean risks” are capped at the voluntary rate level. The voluntary rate level is inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The difference between what this group pays and what they should pay is made up through the statutorily authorized “clean risk” recoupment surcharge applied to the liability premiums of private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as appropriate. Effective October 2007, the Board of Governors implemented a clean risk recoupment surcharge of 2.48% (before inclusion of agent compensation). This was significantly lower than the indicated surcharge in order to reduce the private passenger surplus and bring the members’ equity position closer to a break-even position. Fiscal year to date through June 2008, the clean risk surcharge had generated approximately \$48.6 million



## investment income

Investment income approximated \$36 million for the fiscal year to date through June 30, 2008. This represents an increase of 16.5% from the same period one year ago – much of which is attributable to capital gains realized during a declining interest rate environment over the first part of the report year. Despite the recent volatility in the financial markets related to mortgage devaluations and illiquidity issues, the values of the securities held in the Facility's portfolio were minimally affected, primarily due to the high quality of assets held and the conservative nature of the investment policy.



## operating results

As of June 30, 2008 the Facility had realized its third consecutive quarterly operating loss, and the private passenger surplus continued to decline. These operating losses were planned and due, in part, to the reduced recoupment surcharges and the reduction in other-than-clean risk private passenger rates effective in October 2007.

## member's equity

As a result of the operating losses, the members' equity balance decreased from \$178 million in September 2007 to \$131.2 million in June 2008.

The clean risk recoupment surcharge was adjusted to 4.24% (before inclusion of agent compensation) effective October 2008. The new surcharge continues to be significantly below the indicated level so as to further reduce the member's equity balance.

## operations

During this report period, we were the largest residual market mechanism by total written premium volume in the United States. There were approximately one million policies in force as of June 2008, consisting of 96% Private Passenger non-fleet policies and 4% All Other policies, generating about 26 million transactions. Cession notice volume was down slightly over the same period for the prior year, and written premium for the fiscal year ending September 2008 was projected to total \$730 million – a modest reduction of less than 4% over the prior fiscal year.

## compliance activity

As part of our responsibility to ensure that the Facility collects the right premium and pays the right losses, regular and special audits are performed on all member companies. This is no small effort, as there are over 100 member company groups reporting to the Facility. We continue to emphasize compliance with statutes, rules and regulations, and eligibility for ceded coverage and reimbursement.

Throughout the year, the compliance staff performs audits on each ceding company, as well as voluntary companies who report only recoupment to the Facility. The files are reviewed for claims handling, proper application of underwriting rules, eligibility statutes, experience modification rating, and recoupment, among others. During this report period, over 3600 files were audited. One of the primary benefits of these audits is to identify system problems and enable a company to correct them sooner to minimize their impact.

This effort has appeared to have also educated the member companies on the Facility guidelines, resulting in fewer errors that required special audits to be performed. Additionally, the compliance staff focused great effort on the design and testing of the new audit-tracking module in the EDGE system, which has been designed to improve the timeliness, selection, review, and tracking of the Facility audits in the future.

## legislative changes

The Facility was created by the Legislature in 1973 with N.C.G.S. §58-37 and replaced an Assigned Risk Auto Plan. At that time there was a perceived stigma of being in a bad risk pool, and this new mechanism enabled drivers to select the company of their choice. Since then the legislature has made alterations to address changing conditions in the marketplace.

In 2007, the statutory definition of the eligibility of risks that can be ceded to the Facility changed as a result of House Bill 729, which became law in North Carolina on August 23, 2007. A portion of this legislation was effective on ratification; however, most of the bill's provisions became effective on January 1, 2008. In 2008, the General Assembly enacted House Bill 738 making UM and UIM coverages mandatory up to the limits of liability coverage purchased. The Facility will be required to accept coverage of those policies to which mandatory UM and UIM apply.

## EDGE system development

The development of our new Electronic Data Gathering Enterprise (EDGE) system has been extended to address design issues which were revealed during testing. Though full implementation is taking longer than expected, we are no less confident in the advantages the system will



### Innovation in Action

I have been very involved with the FTP process. I LOVE it. I can now preview the detail and summary records before we send it— I was never able to view the tape cartridge. I actually detected a coding issue that was incorrect and had it fixed BEFORE it got to NCRF and AIPSO. I also like the 25-day lag much better than the 45-day lag. Using 21st century technology is great!

**Margaret Menard – Travelers Insurance**

bring to both the member companies and the Facility. This web-based system will allow companies to interface with the Facility like never before, providing them access to the nearly 300 million records of their own reported data.

We did have a big win this year—an initial phase of the EDGE system was implemented this year. File Transfer Protocol (FTP) reporting went into full production in April 2008, with 100% of member companies meeting the cutover target date. For the first time, all active member companies are reporting their data in to the Facility electronically in the same standard format and encrypted for security. This replaces reporting to AIPSO via magnetic media (cartridges, CD's, diskettes). We congratulate our member companies for making this transition with us and note that, as a result, the timeliness of reporting has dramatically improved, and there have no late reports since 2007. Special thanks to the migration coordinators at the member companies who helped facilitate this effort and to AIPSO for their invaluable commitment to this success.



### Innovation in Action

I thought our transition went very well. The FTP support team was extremely helpful throughout the process. It took a little work to get everything completed, but it is certainly paying off. The FTP process is a much more efficient and safer way to exchange data especially at a time when data security is a must. Thanks!

**Tim Gallagher - The Hartford**

The EDGE project team continues to dedicate a huge amount of effort to bringing this system into reality, and the contributions of each member are greatly appreciated. It will change the way companies do business with the Facility and offer features such as single sign-on access to the NCRF, NCRB, and NCIGA; real-time ceding of risks; online edits; email alerts; and new online consolidated billing with EFT payment options, among others.

## other system development

In early 2008, the organizations rolled out a new and improved Website. The new site contained improved content and featured new graphics, better navigation, and some new functionality. In the future, the site will host the portal through which member companies will access the EDGE system.



### Innovation in Action

The dial-up process we were using was slow and cumbersome, and support wasn't very good when having connection problems. We have experienced no problems since we went live, and the upload process has been more efficient. We like the daily e-mail confirmation on sessions uploaded, and find it much easier to send an additional (multiple) files, if needed. By comparison, the prior process was much more difficult.

**Greg Ricker - Atlantic Casualty Insurance**

Behind the scenes, the Facility also transitioned to our new Contact Management System (CMS). This single repository of contact information will eliminate the use and maintenance of several other systems, reduce the scattered silos of contact information, simplify the business continuity needs, and interface with the EDGE system and a Web Security system as the single source for member company information.



### Innovation in Action

We are pleased to be reporting via FTP. We prefer it since the process is not as cumbersome as the tapes, and it allows us to transmit sensitive customer data more securely. We also like that it is now a scheduled job as opposed to relying on someone to transmit the tapes.

**Lisa Pierce – GEICO**

## conclusion

This has been another very active year. While many of the improvements and efficiencies gained are not all visible from the outside, they are no less valuable or important. The staff deserves a big round of applause for the double duty they have been performing by maintaining the regular business operations of the Facility while committed to the development of the EDGE system, the new organization Website, the transition to the new Contact Management System, and other behind-the-scenes activities. They have brought new meaning to the term "team effort."

The contributions of the industry experts and counsel who support the various activities of the Facility are also greatly appreciated. They are often called upon to assist us on an amazing variety of issues. And finally, we would like to thank the members of the Board of Governors and the committees that devote significant amounts of their time. These industry leaders provide us guidance and leadership and continue to support our efforts to improve each and every year.

*Edith T. Davis*

# North Carolina Reinsurance Facility

## balance sheet

<b>assets</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Cash (Checking Account)	\$694,473	\$488,997
Investments	832,909,536	848,658,137
Accounts Receivable	8,713,134	38,199,344
Accrued Interest Receivable	8,116,123	7,944,782
Other Assets	39,980	22,784
<b>total assets</b>	<b>\$850,473,246</b>	<b>\$895,314,044</b>
<b>liabilities &amp; fund equity</b>		
Accounts Payable	\$32,421,700	\$27,360,085
Loss Reserves	468,253,486	493,915,306
Unearned Premium Reserves	218,226,450	229,556,308
Other Liabilities	318,778	236,024
<b>total liabilities</b>	<b>\$719,220,414</b>	<b>\$751,067,723</b>
Members' Equity	131,252,832	144,246,321
<b>total liabilities &amp; members' equity</b>	<b>\$850,473,246</b>	<b>\$895,314,044</b>

## income statement

<b>income</b>	<b>Fiscal Year through June 30, 2008</b>	<b>Fiscal Year through June 30, 2007</b>
Earned Premiums	\$553,313,406	\$583,740,330
Clean Risk Recoupment	44,630,587	186,848,060
Investment Income	36,000,184	30,899,452
Membership Fee Income	49,300	48,800
Other Income	646,432	411,368
<b>total income</b>	<b>\$634,639,910</b>	<b>\$801,948,010</b>
<b>expenses</b>		
Losses Incurred	\$463,546,226	\$495,961,374
Ceding & Claims Expenses	212,995,200	228,940,917
Salaries & Administration Expenses	1,330,700	1,112,401
Outside Services Expenses	2,235,874	2,600,834
Other Operating Expenses	1,220,793	1,272,469
<b>total expenses</b>	<b>\$681,328,793</b>	<b>\$729,887,995</b>
Net Income/(Loss) Before Loss Recoupments	\$(46,688,883)	\$72,060,015
loss recoupments	(21,465)	(1,560,779)
<b>Net Income/(Loss) After Loss Recoupments</b>	<b>\$(46,710,348)</b>	<b>\$70,499,236</b>

# NCRF Management Staff



**Jannet Barnes**  
*Manager, Compliance*



**Valerie Pearson**  
*Supervisor, Operations*

# Organizational Shared Resources



**Vicki Godbold**  
*Director,  
Human Resources &  
Administrative Services*



**David Sink**  
*Director, Finance*



**Jim Auman**  
*Manager, IT Services*



**Shelley Chandler**  
*Manager,  
Software Development*



**Tammy Choboy**  
*Manager,  
Quality Assurance*



**Tim Lucas**  
*Manager, Automobile*



**Mike Newton**  
*Manager, Claims*



**Amy Tart**  
*Manager, Organizational  
Administration*

# North Carolina Reinsurance Facility

## special purpose statement of operations

	Year Ended September 30, 2007	Year Ended September 30, 2006
Premiums Earned	\$775,355,621	\$743,119,401
Clean Risk Subsidies	251,534,429	249,253,969
Total Underwriting Income	1,026,890,050	992,373,370
Losses Incurred	654,314,245	635,769,818
Ceding Expense Allowances	205,515,311	199,881,841
Claims Expense Allowances	99,171,286	93,051,730
Total Underwriting Expenses	959,000,842	928,703,389
Net Underwriting Income	67,889,208	63,669,981
Other Income (Expense):		
Net Investment Income	44,109,065	31,920,109
Net Realized Capital Losses	(1,071,995)	(4,672,275)
Late Premium Charges And Penalties	349,449	465,872
Membership Fees	49,100	47,350
Cession Notice Charges	16,980	21,690
General And Administrative Expense	(5,924,231)	(4,880,691)
Other Miscellaneous Expense	(2,649)	(4,653)
Total Other Income – Net	37,525,719	22,897,402
Net Operating Income	\$105,414,927	\$86,567,383

# North Carolina Reinsurance Facility

## special purpose balance sheets

<b>assets</b>	<b>Year Ended September 30, 2008</b>	<b>Year Ended September 30, 2007</b>
Cash And Short-Term Investments	\$95,383,556	\$83,466,602
Long-Term Investments, At Amortized Cost	769,469,937	690,122,248
Accrued Interest Receivable	7,631,674	6,640,099
Receivables From Member Companies:		
Settlements	44,706,055	53,434,675
Late Premium Charges And Penalties	24,269	31,578
	44,730,324	53,466,253
<b>total assets</b>	<b>\$917,215,491</b>	<b>\$833,695,202</b>
<b>liabilities &amp; members' equity</b>		
Loss And Loss Adjustment Expense Reserves:		
In Course Of Settlement	\$373,226,252	\$390,158,556
Incurred But Not Reported	116,380,138	112,335,543
Total Loss And Loss Adjustment Expense Reserves	489,606,390	502,494,099
Unearned Premium Reserves	230,358,184	232,696,618
Settlements Payable To Member Companies	19,060,002	24,465,895
Other Liabilities	227,734	291,505
<b>total liabilities</b>	<b>739,252,310</b>	<b>759,948,117</b>
Commitments And Contingencies		
<b>members' equity</b>	<b>177,963,181</b>	<b>73,747,085</b>
<b>total liabilities and members' equity</b>	<b>\$917,215,491</b>	<b>\$833,695,202</b>

## Report of Independent Auditors

The Board of Governors  
North Carolina Reinsurance Facility

We have audited the accompanying special-purpose balance sheets of the North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2007 and 2006, and the related special-purpose statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these special-purpose 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 audit 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 Facility'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 accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in the "Standard Practice Manual," which were approved for use by and within the authority of the Chair of the Facility's Board of Governors and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Reinsurance Facility at September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed by the Facility's Standard Practice Manual.

This report is intended solely for the information and use of the Board of Governors, the member companies and the North Carolina Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.



February 4, 2008

# 2008 ANNUAL REPORT

## North Carolina Reinsurance Facility