

Exhibit A

**ASSURANCE AND ADVISORY
BUSINESS SERVICES**

 **ERNST & YOUNG**

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

December 31, 2003 and June 11, 2003, and the period from June 11, 2003
(inception of Liquidation) to December 31, 2003
with Report of Independent Auditors

The Home Insurance Company in Liquidation

Financial Statements
(Modified Cash Basis)

December 31, 2003 and June 11, 2003, and the period from June 11, 2003
(inception of Liquidation) to December 31, 2003

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Report of Independent Auditors

Special Deputy Receiver The Home Insurance Company in Liquidation

We have audited the accompanying statements of net assets (modified cash basis) of The Home Insurance Company in Liquidation (the Liquidating Company) as of December 31, 2003 and June 11, 2003, and the related statements of cash receipts and disbursements and changes in cash and investments, at cost (modified cash basis), and changes in net assets (modified cash basis) for the period from June 11, 2003 (inception of liquidation) to December 31, 2003. These financial statements are the responsibility of the Liquidating Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 financial statements have been prepared on a modified cash basis of accounting and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets (modified cash basis) of The Home Insurance Company in Liquidation as of December 31, 2003 and June 11, 2003, the cash receipts and disbursements and changes in cash and investments, at cost (modified cash basis), and changes in net assets (modified cash basis) for the period from June 11, 2003 (inception of liquidation) to December 31, 2003, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Liquidating Company, the New Hampshire Department of Insurance, the Liquidator, and the Liquidation Court to whose jurisdiction the Liquidating Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 5, 2004

The Home Insurance Company in Liquidation

Statements of Net Assets
(Modified Cash Basis)

	December 31, 2003	June 11, 2003
Assets		
Unrestricted cash and investments, at cost:		
Bonds	\$ 174,531,250	\$ —
Short-term investments	151,422,458	140,583,562
Certificates of deposit	321,943	321,943
Cash and cash equivalents	121,185,400	183,424,756
Total unrestricted cash and investments, at cost	<u>447,461,051</u>	<u>324,330,261</u>
Common stocks, marketable, at market value	18,710,427	14,686,152
Interest income due and accrued	1,390,004	43,750
Total unrestricted liquid assets	<u>467,561,482</u>	<u>339,060,163</u>
Unrestricted illiquid assets:		
Common stocks, at fair value	17,144,990	16,328,444
Limited partnerships, at fair value	87,285	44,904
Total unrestricted illiquid assets	<u>17,232,275</u>	<u>16,373,348</u>
Restricted liquid assets:		
Cash and cash equivalents	825,673	—
Total restricted liquid assets	<u>825,673</u>	<u>—</u>
Fixed assets (net of accumulated depreciation of \$61,054)	492,336	—
Due from US International Reinsurance (a subsidiary)	991,083	—
Total assets, excluding certain amounts	<u>487,102,849</u>	<u>355,433,511</u>
Liabilities		
Incurred but unpaid administrative expenses and loss adjustment expenses	748,612	1,332,976
Net assets, excluding certain amounts	<u>\$ 486,354,237</u>	<u>\$ 354,100,535</u>

See accompanying notes.

The Home Insurance Company in Liquidation

Statement of Cash Receipts and Disbursements
and Changes in Cash and Investments, at Cost
(Modified Cash Basis)

Period from June 11, 2003 (inception of Liquidation) to December 31, 2003

	<u>Unrestricted</u>	<u>Restricted</u>
Cash receipts:		
Reinsurance collections	\$ 126,021,113	\$ -
Remittance of funds held by reinsurers	25,016,815	825,673
Salvage, subrogation and other claim recoveries	7,049,340	-
Net investment income	3,314,684	-
Agents' balances	1,902,779	-
Other	1,056,586	-
Total cash receipts	<u>164,361,317</u>	<u>825,673</u>
Cash operating disbursements:		
Losses and loss expenses paid	(14,102,239)	-
Human resources costs	(5,973,159)	-
Asset transfer agreement	(7,500,000)	-
Consultant and outside service fees	(7,289,513)	-
General office and rent expense	(2,241,936)	-
Legal fees	(1,211,546)	-
Computers and other equipment expense	(1,185,065)	-
Administration costs	(643,070)	-
Third-party administrator payments	(620,020)	-
Temporary services	(391,409)	-
Other	(72,570)	-
Total cash operating disbursements	<u>(41,230,527)</u>	<u>-</u>
Excess of cash receipts over cash operating disbursements	123,130,790	825,673
Beginning cash and investments, at cost	324,330,261	-
Ending cash and investments, at cost	<u>\$ 447,461,051</u>	<u>\$ 825,673</u>

See accompanying notes.

The Home Insurance Company in Liquidation

Statement of Changes in Net Assets
(Modified Cash Basis)

Period from June 11, 2003 (inception of Liquidation) to December 31, 2003

Net assets, beginning of period	\$ 354,100,535
Excess of unrestricted and restricted cash receipts over cash operating disbursements	123,956,463
Other changes in net assets:	
Fair value of marketable common stocks, liquid	4,024,275
Fair value of common stocks, illiquid	858,927
Interest income due and accrued	1,346,254
Fixed assets	492,336
Due from US International Reinsurance	991,083
Incurred but unpaid administrative expenses and loss adjustment expenses	584,364
Total other changes	<u>8,297,239</u>
Net assets, end of period	<u>\$ 486,354,237</u>

See accompanying notes.

The Home Insurance Company in Liquidation

Notes to Financial Statements (Modified Cash Basis)

December 31, 2003 and June 11, 2003, and the period from
June 11, 2003 (inception of Liquidation) to December 31, 2003

1. Background and Significant Accounting Policies

The Home Insurance Company (the Company) was declared insolvent on June 11, 2003, and the liquidation of the Company was ordered (the Liquidation Order) by the Merrimack County Superior Court of the State of New Hampshire (the Liquidation Court). The Insurance Commissioner of the State of New Hampshire was appointed Liquidator of the Company. The liquidation of the Company (since June 11, 2003, The Home Insurance Company in Liquidation) is being conducted in accordance with New Hampshire statutes governing insurance insolvency proceedings. The Company has issued no new insurance policies since 1995, and it was placed in supervision by the New Hampshire Insurance Department in 1997. The principal activities since the date of the Liquidation Order (insolvency) consist of preparing to determine claims under policies issued prior to the date of insolvency, recovering reinsurance balances for losses ceded under reinsurance agreements, and collecting assets to distribute to creditors. On June 13, 2003, the Liquidation Court issued a revised Liquidation Order, which did not change the effective date of the insolvency.

The following represent the significant accounting policies affecting The Home Insurance Company in Liquidation (the Liquidating Company) that are used in preparing the accompanying financial statements. These policies differ from accounting principles generally accepted in the United States.

Basis of Accounting

The Liquidating Company's financial statements are prepared using the modified cash basis of accounting, which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization by the Liquidating Company is expected to occur, primarily liquid and illiquid investments and cash, certain receivables, and fixed assets are recorded. Liabilities that have been acknowledged by the Liquidating Company are prioritized into ten creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies (Revised Statutes Section (RSA) 402-C:44). Since only Class I liabilities are currently being paid, only incurred but unpaid Class I (Administration Costs) liabilities, which is a creditor class superior to all other classes, are presented in the financial statements. These financial statements reflect the net assets and the operating expenses on the basis described above.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued) (Modified Cash Basis)

1. Background and Significant Accounting Policies (continued)

Basis of Accounting (continued)

The Liquidating Company does not record the amounts of certain assets, such as reinsurance recoverables, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance policy claims and losses, as such amounts have not been settled and agreed to with third parties.

These statements do not include any assets of the Liquidating Company's branches outside of the United States.

"Restricted" is a term used to denote certain assets held and managed by the Liquidating Company for parties at interest. The right of ownership to these assets is conditional upon future events. Accordingly, such amounts are shown separately where appropriate. See Note 5. There were no restricted assets as of June 11, 2003.

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions by management that affects amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates.

Bonds

Marketable bonds are carried at cost. Amounts received over or under original cost are treated as a gain or loss upon disposition. Bonds are generally held until maturity. The types of bonds that the Liquidating Company may invest in are prescribed by order of the Liquidation Court and consist principally of U.S. Government and U.S. Government agency securities.

Cash and Cash Equivalents

Cash and cash equivalents are presented at cost which approximates fair value. Cash equivalents consist principally of money market accounts.

Short-Term Investments

Short-term investments are reported at cost, which approximates fair value and consists primarily of United States Treasury securities.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued) (Modified Cash Basis)

1. Background and Significant Accounting Policies (continued)

Marketable Common Stocks

Marketable common stocks are carried at fair value based upon the closing price on a national exchange.

Illiquid Common Stocks and Limited Partnership Interests

Common stocks that are illiquid are comprised of investments in a 71%-owned company, an 18% ownership in a privately held corporation, and investments in two limited partnerships. Fair value has been estimated by the percentage of equity of each investment owned.

Fixed Assets

Fixed assets are carried at cost, net of accumulated depreciation. Maintenance and repairs are charged to disbursements when paid. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets.

Losses and Loss Expenses Paid

The amount shown for losses and loss expenses paid in the statement of cash receipts and disbursements and changes in cash and investments, at cost, primarily represents (1) prepayments of workers' compensation benefits pursuant to agreements with state guaranty funds to avoid disruption in payment during the transfer of related claims files to the various state guaranty funds, (2) loss expenses for services rendered during the period March 5, 2003 (date of court order placing the Company in rehabilitation) through June 10, 2003 (the rehabilitation period) and accorded administrative expense priority by the Rehabilitation Order and Liquidation Order, and (3) checks issued for loss and loss expenses prior to June 11, 2003, which cleared after the Liquidation Order.

Employee Benefits

Substantially all full-time employees of the Liquidating Company are covered by various employee incentive plans, which were approved by the Liquidation Court on April 5, 2004. No costs were incurred or paid under these plans during the period from June 11, 2003 to December 31, 2003.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued) (Modified Cash Basis)

1. Background and Significant Accounting Policies (continued)

Priority of Claims and Distributions to Creditors

The Liquidating Company will distribute funds to policyholder/creditors in accordance with RSA 402-C:44, which governs asset distributions from the estate of the Liquidating Company. The RSA establishes the following classes of creditors:

Class I: Payment of all administration expenses of closing the business and liquidating the Company.

Class II: Payment of policy claims (excluding any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the claimant).

Class III: Claims of the federal government.

Class IV: Debts due to employees for services performed.

Class V: All other claims, including claims of any state or local government, not falling within other classes.

Class VI: Claims based solely on judgments.

Class VII: Interest on claims already paid.

Class VIII: Miscellaneous subordinated claims.

Class IX: Preferred ownership claims, including surplus or contribution notes, or similar obligations, and premium funds on assessable policies.

Class X: The claims of shareholders or other owners.

The claims of a higher class of creditor (e.g., Class I) must be paid in full before a lower creditor class becomes eligible for payment. The Liquidating Company is currently paying only Class I (Administration Costs) creditors. However, it is anticipated that payments will be made in the future, after court approval, as additional assets are received by the Liquidating Company. It is management's judgment that there will not be sufficient assets to pay any claims below Class II.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued)
(Modified Cash Basis)

2. Marketable Securities

The cost and estimated fair values of marketable bonds and common stock by major category are summarized as follows:

December 31, 2003				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Unrestricted Marketable Securities				
Bonds:				
U.S. Treasury notes	\$ 99,578,125	\$ 953,125	\$ -	\$ 100,531,250
Government Agencies	74,953,125	257,625	-	75,210,750
Total Bonds	\$ 174,531,250	\$ 1,210,750	\$ -	\$ 175,742,000
Common Stock:				
Prudential Financial, Inc.	\$ -	\$ 13,758,745	\$ -	\$ 13,758,745
Metlife, Inc.	-	4,272,959	-	4,272,959
Ortec International	1,627,706	-	(948,983)	678,723
Total Common Stock	\$ 1,627,706	\$ 18,031,704	\$ (948,983)	\$ 18,710,427
June 11, 2003				
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common Stock:				
Prudential Financial, Inc.	\$ -	\$ 11,041,253	\$ -	\$ 11,041,253
Metlife, Inc.	-	3,549,589	-	3,549,589
Ortec International	1,627,706	-	(1,532,396)	95,310
Total Common Stock	\$ 1,627,706	\$ 14,590,842	\$ (1,532,396)	\$ 14,686,152

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued)
(Modified Cash Basis)

2. Marketable Securities (continued)

The cost and fair values of marketable bonds by contractual maturity as of December 31, 2003 is as follows:

	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
Over one year through five years	\$ 174,531,250	\$ 175,742,000

3. Securities on Deposit

Investments on deposit at the original cost with various states were \$44,435,212 and \$73,947,287 at December 31, 2003 and June 11, 2003, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

The Liquidating Company has pledged certificates of deposit in the amount of \$9,667,322 at December 31, 2003 and June 11, 2003, as collateral for letters of credit. As the certificates of deposit are pledged as collateral, the Liquidating Company does not record them as assets.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued) (Modified Cash Basis)

4. Class I Liabilities: Incurred But Unpaid Administrative Expenses and Loss Adjustment Expenses

Class I liabilities represent accrued administrative expenses and loss adjustment expenses incurred in the normal course of the Liquidating Company and consist of the following accruals at December 31, 2003 and June 11, 2003:

	December 31, 2003	June 11, 2003
Loss adjustment expenses (<i>Note 1</i>)	\$ 134,585	\$ -
Consultant and outside service fees – Risk Enterprise Management (REM)	160,405	585,333
Consultant and outside service fees	236,061	182,701
Legal and professional fees	115,686	167,724
Computers and equipment costs	41,590	-
General office and rent expense	37,641	46,635
Human resources costs	16,391	280,116
Temporary services	5,067	70,467
Administration costs	1,186	-
	<u>\$ 748,612</u>	<u>\$ 1,332,976</u>

5. Restricted Funds Applied to Reinsurance Recoveries

The Liquidator has drawn down on letters of credit (LOC) posted by insurance companies that have assumed risks from the Liquidating Company. The LOCs have been drawn down upon receiving notices of cancellation or notices of nonrenewal of the LOC from the issuing bank. Such LOC drawdowns relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Special Deputy Liquidator. Since the inception of the liquidation, restricted funds applied to reinsurance recoveries total \$825,673.

The Home Insurance Company in Liquidation

Notes to Financial Statements (continued) (Modified Cash Basis)

6. Commitments

The Liquidating Company leases office space and equipment under operating leases expiring in various years through December 31, 2008.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year are:

<u>Year ending December 31</u>	
2004	\$ 1,967,575
2005	1,967,575
2006	1,691,815
2007	1,691,815
2008	1,476,895

Rent expense incurred in the period from June 11, 2003 to December 31, 2003 was \$1,559,270.

7. Asset Transfer Agreement

In connection with an Asset Transfer Agreement approved by the Liquidation Court on August 6, 2003, the Liquidating Company paid Risk Enterprise Management (REM) \$7,500,000 for the right, title and interest to certain tangible and intangible technology, including computer systems and software and related applications. Included in the technology assets was an amount for an assumed reinsurance system, of which \$2,898,000 of this cost was allocated to the Company's subsidiary, US International Reinsurance Company in Liquidation (USI Re). The amount receivable from USI Re is reflected on the statement of net assets net of an allowance for doubtful collectibility of \$1,906,917.

8. Income Taxes

The Liquidating Company reported a net operating loss carryforward of \$631,643,736 as of December 31, 2002. These operating loss carryforwards expire in various amounts from 2018 to 2022. The 2003 income tax return has not been filed but is expected to reflect additional tax losses.