

IN THE COURT OF COMMON PLEAS, FRANKLIN COUNTY, OHIO

MARY TAYLOR, Ohio Superintendent of Insurance, in her capacity as Liquidator of LMI Insurance Company,

Plaintiff,

v.

LMI Insurance Company,

Defendant.

Case No. 00CVH03-2431

Judge Charles A. Schneider

**MOTION FOR APPROVAL OF LIQUIDATOR'S REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

Mary Taylor, Ohio Superintendent of Insurance, in her capacity as Liquidator of LMI Insurance Company ("LMI"), moves this Court for an order approving her Report of Independent Auditors for the years ended June 30, 2011 and 2010, which is attached as Exhibit A and hereby incorporated by reference into this Motion. A Memorandum in Support is attached.

Respectfully submitted,

MIKE DEWINE  
Attorney General of Ohio

By Special Counsel:  
CARLILE PATCHEN & MURPHY LLP



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## MEMORANDUM IN SUPPORT OF MOTION

By Order of this Court entered on May 23, 2000, the Ohio Superintendent of Insurance and his successors in office was appointed Liquidator of LMI Insurance Company pursuant to R.C. Section 3903.18(A). The Liquidation Order directed the Liquidator to take possession of the assets of LMI and administer them under the general supervision of this Court. As provided in R.C. Section 3903.18(E), the Liquidation Order also requires the Liquidator to account to this Court at specified intervals. Accordingly, the Liquidator submits accountings to this Court on a semiannual basis for the periods ending June 30<sup>th</sup> and December 31<sup>st</sup> of the year (the "Periodic Accountings").

One of the Liquidator's primary responsibilities is the marshaling of assets of the LMI liquidation estate, for ultimate distribution to the liquidation estate's policyholders and creditors pursuant to R.C. Chapter 3903, under the supervision of this Court. In the process of marshaling assets, the Liquidator routinely receives and deposits cash and purchases and sells various investment securities. In order to record this activity, the Liquidator built an internal accounting department capable of tracking costs and recoveries and generating basic financial reports. The cash and investment security balances are reported by the Liquidator to this Court in the Periodic Accountings mentioned above.

In July of 1991, the Liquidator determined that it was in the best interests of all of the Ohio liquidation estates to hire an independent auditing firm to perform an annual audit of the Liquidator's internal controls relating to cash receipts and disbursements and the purchase and sale of investment securities in order to ensure the integrity of the Liquidator's accounting system. Pursuant to the Administrative Operating Procedure Updated Effective January 1, 2011, which was approved in this case on December 21, 2010, the retention of independent auditors is reassessed no less frequently than every five years, and modified based on upon responses to requests for proposals (RFPs). The last RFP was issued in 2011. As a result of the responses

received from several public accounting firms, the Liquidator modified her previous retention and engaged Maloney + Novotny LLC to perform the audit. The Liquidator requested the auditing firm to render an opinion in its audit report as to the propriety of the information presented in the Periodic Accounting, as it was the Liquidator's intention to file the report with this Court to demonstrate the integrity of the Periodic Accountings.

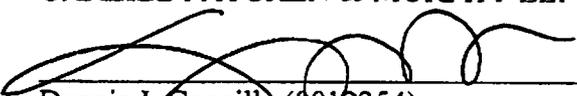
Maloney + Novotny LLC has completed its audit of the statements of cash and invested assets of LMI as of June 30, 2011 and 2010 and the related statements of cash receipts and cash disbursements for the years ended June 30, 2011 and 2010. Maloney + Novotny LLC issued the Report containing its audit findings which opine that the Liquidator's financial statements present fairly, in all material respects, both the cash and invested assets of LMI at June 30, 2011 and 2010 and cash receipts and cash disbursements for the years ended June 30, 2011 and 2010.

By this Motion, the Liquidator seeks this Court's approval of the Annual Report of Independent Auditors for the years ended June 30, 2011 and 2010 (the "Report"), attached hereto as Exhibit A.

Respectfully submitted,

MIKE DEWINE  
Attorney General of Ohio

By Special Counsel:  
CARLILE PATCHEN & MURPHY LLP



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*Attorneys for Mary Taylor, in her capacity as  
Liquidator of LMI Insurance Company*

**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing Motion for Approval of the Liquidator's Periodic Accounting was posted on the Liquidator's website ([www.ohliq.com](http://www.ohliq.com)) under Open Liquidations - LMI Insurance Company substantially contemporaneous with the filing of this Motion.

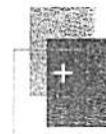


One of the Attorneys for the Liquidator

OFFICE OF THE OHIO  
INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

FINANCIAL REPORT

JUNE 30, 2011 and 2010



Office of the Ohio Insurance Liquidator

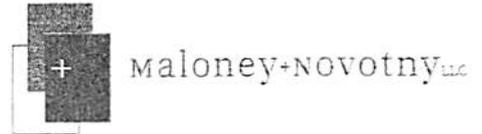
OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of cash and invested assets	2
Statement of cash receipts and cash disbursements	3
Notes to financial statements	4-8

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Lynda G. Loomis  
Chief Deputy Liquidator  
Office of the Ohio Insurance Liquidator  
LMI Insurance Company, in Liquidation

Independent Auditors' Report

We have audited the accompanying statement of cash and invested assets arising from cash transactions of LMI Insurance Company, in Liquidation ("Estate") as of June 30, 2011, and the related statement of cash receipts and cash disbursements for the year then ended. These financial statements are the responsibility of the Estate. Our responsibility is to express an opinion on these financial statements based on our audit. The Estate's 2010 statement of cash and invested assets was audited by other auditors whose report dated November 22, 2010 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Company'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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared to present the financial statements of LMI Insurance Company, in Liquidation pursuant to the accounting practices prescribed or permitted by the Office of the Ohio Insurance Liquidator and the Franklin County, Ohio Common Pleas Court, described in Note 1, and are not intended to be a complete presentation of the Company's assets and liabilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and invested assets arising from cash transactions of LMI Insurance Company, in Liquidation as of June 30, 2011, and the related statement of cash receipts and cash disbursements for the year then ended, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Office of the Ohio Insurance Liquidator and the Franklin County, Ohio Common Pleas Court and is not intended to be and should not be used by anyone other than these specified parties.

*Maloney + Novotny LLC*

Cleveland, Ohio  
October 7, 2011

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

STATEMENTS OF CASH AND INVESTED ASSETS

June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Cash	\$ 19,158	\$ 35,342
Invested assets	<u>24,458,519</u>	<u>17,806,248</u>
	<u>\$24,477,677</u>	<u>\$17,841,590</u>

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year Ended June 30, 2011

CASH AT JULY 1, 2010	\$ 35,342
CASH RECEIPTS	
Investment proceeds from money market funds	2,138,140
Interest and dividend income	117,799
Salvage and subrogation recoveries	6,652
Reinsurance recoveries	6,416,196
Proceeds - DayMed estate closure - remaining holdback	36,298
Proceeds - RHP estate closure - remaining holdback	45,820
Proceeds - Oil & Gas estate closure - remaining holdback	333,804
Proceeds - Proliance estate closure - remaining holdback	27,147
Proceeds - miscellaneous receipts - closed estates	366
Return of statutory deposit	9,074
Other income	19,471
Total cash receipts	<u>9,150,767</u>
CASH DISBURSEMENTS	
Investment purchases in certificates of deposit	250,000
Investment purchases in bonds	7,497,000
Investment purchases in money market funds	1,042,937
Salaries, wages and employee benefits	255,449
Professional fees	40,293
General and administrative expenses	96,288
Prepaid postage expense	325
Bureau of workers compensation deposit	340
Return of interim distribution to Insurance Guaranty Associations	(15,681)
Total cash disbursements	<u>9,166,951</u>
CASH AT JUNE 30, 2011	<u>\$ 19,158</u>

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS

**Note 1. Background and Basis of Presentation**

Ohio Revised Code Chapter 3903 contains the Insurers' Supervision, Rehabilitation and Liquidation Act (the "Act"). The Act governs all aspects of an insurance company's rehabilitation or liquidation (sometimes referred to as receivership) resulting from insolvency.

When the Ohio Superintendent of Insurance, as regulator, determines that an Ohio-domiciled insurer is insolvent or is operating in a financially hazardous manner, the Superintendent files a Complaint in the Franklin County, Ohio Common Pleas Court ("Liquidation Court") for a court order placing the company into rehabilitation or liquidation. If the Court agrees with the Complaint, the Court enters a rehabilitation or liquidation order appointing the Superintendent of Insurance in the separate fiduciary capacity of Rehabilitator or Liquidator ("receiver") of the company, empowered to act on behalf of the creditors of the estate to secure, marshal and eventually rehabilitate or liquidate the company's assets.

LMI Insurance Company ("Company") was placed in liquidation on May 23, 2000 by the Court and it became LMI Insurance Company, in Liquidation ("Estate").

As is common with entities placed in fiduciary control, the Liquidator has prepared the accompanying financial statements on the cash-basis of accounting, whereby, the statements of cash and invested assets include only the cash and invested assets of the Estate, and the statement of cash receipts and cash disbursements reflects only cash transactions; consequently, all other assets and liabilities of the Estate are not included in the statements of cash and invested assets, and uncollected revenues and unpaid expenses are not included in the statement of cash receipts and cash disbursements. Changes in amortization of bond premiums and discounts are reflected in invested assets, however, these amounts are not reflected in the statement of cash receipts and disbursements as they are non-cash transactions. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and, accordingly, the statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Prepaid Expenses**

On April 21, 2011, the Franklin County, Ohio Court of Common Pleas ordered the Proliance Insurance Company liquidation estate (the "Proliance Estate") closed and the liquidation case terminated (the "Proliance Closing Order"). In its Proliance Closing Order, the Court authorized the Liquidator to close all of the Proliance Estate's bank accounts and to take all actions required to close the Proliance liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the Proliance Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Proliance Estate. At the time of the Proliance Closing Order, \$27,147 of the reserved funds remained. The Proliance Closing Order approved the Liquidator's pre-payment of \$27,147 of the Proliance Estate's unpaid administrative expenses related to the closure of the Proliance Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Proliance case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Proliance Estate. The payment of \$27,147 and receipt of these funds were reported respectively in the Proliance Estate final accounting and the LMI periodic accountings, but the expenditure of them is not separately tracked, accounted for or reported pursuant to the provisions of paragraph 3 on page 8 of the Administrative Expense Operating Procedure applicable to Closed and Closing Estates that was updated and approved most recently beginning on December 21, 2010 in the LMI Liquidation Case, Case No. 00CVH03-2431 ("AOP"). The AOP is based upon the Liquidator's Accounting Department Internal Control for handling administrative costs and expenses for closing and closed Estates after a final distribution of assets to creditors, which dates back to 1995.

On March 24, 2011, the Franklin County, Ohio Court of Common Pleas ordered the DayMed Health Maintenance Plan, Inc. liquidation estate (the "DayMed Estate") closed and the liquidation case terminated (the "DayMed Closing Order"). In its DayMed Closing Order, the Court authorized the Liquidator to close all of the DayMed Estate's bank accounts and to take all actions required to close the DayMed Estate and carry out the Court's Order. When the Liquidator made the final distribution of the DayMed Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the DayMed Estate. At the time of the DayMed Closing Order, \$36,298 of the reserved funds remained. The DayMed Closing Order approved the Liquidator's pre-payment of \$36,298 of the DayMed Estate's unpaid administrative expenses related to the closure of the DayMed Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the DayMed case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the DayMed Estate. The payment of \$36,298 and receipt of these funds were reported respectively in the DayMed Estate final accounting and the LMI periodic accountings, but the expenditure of them is not separately tracked, accounted for or reported pursuant to the provisions of paragraph 3 on page 8 of the Administrative Expense Operating Procedure applicable to Closed and Closing Estates that was updated and approved most recently beginning on December 21, 2010 in the LMI Liquidation Case, Case No. 00CVH03-2431 ("AOP"). The AOP is based upon the Liquidator's Accounting Department Internal Control for handling administrative costs and expenses for closing and closed Estates after a final distribution of assets to creditors, which dates back to 1995.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Prepaid Expenses (Continued)**

On February 25, 2011, the Franklin County, Ohio Court of Common Pleas ordered the Oil & Gas Insurance Company liquidation estate (the "Oil & Gas Estate") closed and the liquidation case terminated (the "Oil & Gas Closing Order"). In its Oil & Gas Closing Order, the Court authorized the Liquidator to close all of the Oil & Gas Estate's bank accounts, and to take all actions required to close the Oil & Gas liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the Oil & Gas Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Oil & Gas Estate. The Oil & Gas Closing Order approved the Liquidator's pre-payment of the Oil & Gas Estate's unpaid administrative expenses related to the closure of the Oil & Gas Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Oil & Gas case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Oil & Gas Estate. The payment of \$333,804 and receipt of these funds were reported respectively in the Oil & Gas Estate final accounting and the LMI periodic accountings, but the expenditure of them is not separately tracked, accounted for or reported pursuant to the provisions of paragraph 3 on page 8 of the Administrative Expense Operating Procedure applicable to Closed and Closing Estates that was updated and approved most recently beginning on December 21, 2010 in the LMI Liquidation Case, Case No. 00CVH03-2431 ("AOP"). The AOP is based upon the Liquidator's Accounting Department Internal Control for handling administrative costs and expenses for closing and closed Estates after a final distribution of assets to creditors, which dates back to 1995.

On March 22, 2011, the Franklin County, Ohio Court of Common Pleas ordered the Renaissance Health Plan, Inc. liquidation estate (the "Renaissance Estate") closed and the liquidation case terminated (the "Renaissance Closing Order"). In its Renaissance Closing Order, the Court authorized the Liquidator to close all of the Renaissance Estate's bank accounts and to take all actions required to close the Renaissance Estate and carry out the Court's Order. When the Liquidator made the final distribution of the Renaissance Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Renaissance Estate. At the time of the Renaissance Closing Order, \$45,820 of the reserved funds remained. The Renaissance Closing Order approved the Liquidator's pre-payment of \$45,820 of the Renaissance Estate's unpaid administrative expenses related to the closure of the Renaissance Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Renaissance case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Renaissance Estate. The payment of \$45,820 and receipt of these funds were reported respectively in the Renaissance Estate final accounting and the LMI periodic accountings, but the expenditure of them is not separately tracked, accounted for or reported pursuant to the provisions of paragraph 3 on page 8 of the Administrative Expense Operating Procedure applicable to Closed and Closing Estates that was updated and approved most recently beginning on December 21, 2010 in the LMI Liquidation Case, Case No. 00CVH03-2431 ("AOP"). The AOP is based upon the Liquidator's Accounting Department Internal Control for handling administrative costs and expenses for closing and closed Estates after a final distribution of assets to creditors, which dates back to 1995.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Invested Assets**

Invested assets consist of those assets that are under the complete and direct control of the Liquidator and are being specifically held as investments.

Money market funds and certificates of deposit are recorded at cost, which approximates fair value, and bonds are recorded at amortized cost.

At June 30, 2011 and 2010, invested assets and their carrying values consisted of the following:

	2011 Carrying Value	2010 Carrying Value
	<u>                    </u>	<u>                    </u>
Money market funds	\$ 5,019,639	\$ 6,114,842
Bonds at amortized cost	19,188,880	11,691,406
Certificate of deposit	<u>250,000</u>	<u>-</u>
	<u>\$24,458,519</u>	<u>\$17,806,248</u>

**Note 4. Statutory Deposits and Escrow Account**

In the normal course of writing insurance in various states, the Company was required by state statute to deposit funds with various state insurance departments. When the Estate entered liquidation, the statutory deposits were impounded by the various state insurance departments for the protection of policyholders within their jurisdiction. Since the Liquidator does not have direct control over those assets held by state insurance departments or related entities, and it is uncertain whether all or a portion of such assets will be available to the Liquidator in satisfying the obligations of the liquidation estate, they are not considered invested assets by the Liquidator until complete and direct control over them is established. The amount of statutory deposits as of June 30, 2011 and 2010 was \$835,948 and \$959,235, respectively. The change in special deposits balances for the current audit period is primarily due to the \$124,620 reclassification of Arizona Special Deposit due to the transfer of the funds to the Arizona Insurance Guarantee Association for future workers' compensation claims.

**Note 5. Litigation**

In liquidating the Estate, the Liquidator may initiate legal action to clarify claims, recover reinsurance proceeds and determine legal responsibilities of the Liquidation. The Liquidator believes that none of these actions will adversely affect the value of cash and invested assets. The determination and priority of claims, and any distribution thereof, is defined pursuant to Ohio Revised Code Chapter 3903, et seq.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Subsequent Events**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and the disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 7, 2011, which is the date that the financial statements were available to be issued. No material subsequent events were noted.