

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.	:	Case No. 00-CV-002431
	:	
LMI Insurance Company,	:	Judge Charles A. Schneider
	:	
Defendant.	:	

MOTION FOR APPROVAL OF LIQUIDATOR'S REPORT OF INDEPENDENT AUDITORS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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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Liquidator of LMI Insurance Company*

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 30th and December 31st 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 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, 2012 and 2011 and the related statements of cash receipts and cash disbursements for the years ended June 30, 2012 and 2011. 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, 2012 and 2011 and cash receipts and cash disbursements for the years ended June 30, 2012 and 2011.

By this Motion, the Liquidator seeks this Court's approval of the Annual Report of Independent Auditors for the years ended June 30, 2012 and 2011 (the "Report"), attached hereto as Exhibit A.

Respectfully submitted,

MIKE DEWINE
Attorney General of Ohio

By Special Counsel:
CARLILE PATCHEN & MURPHY LLP

/s/ Scott R. Mergenthaler

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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 Independent Auditors Reports for the Years Ended June 30, 2012 and 2011 was posted on the Liquidator's website () under Open Liquidations - LMI Insurance Company substantially contemporaneous with the filing of this Motion.

/s/ Scott R. Mergenthaler
Scott R. Mergenthaler (00122869)

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

FINANCIAL REPORT

JUNE 30, 2012 and 2011

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

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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 statements of cash and invested assets arising from cash transactions of LMI Insurance Company, in Liquidation ("Estate") as of June 30, 2012 and 2011, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2012. These financial statements are the responsibility of the Estate. 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 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 Estate'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 audits provide 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, 2012 and 2011, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2012, 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.

A handwritten signature in cursive script that reads "Maloney + Novotny LLC".

Cleveland, Ohio
September 14, 2012



LMI INSURANCE COMPANY,
IN LIQUIDATION

STATEMENTS OF CASH AND INVESTED ASSETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash	\$ 11,588	\$ 19,158
Invested assets	<u>15,055,785</u>	<u>24,458,519</u>
	<u>\$15,067,373</u>	<u>\$24,477,677</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, 2012

CASH AT JULY 1, 2011	\$ 19,158
CASH RECEIPTS	
Net investment proceeds from bonds	5,697,031
Net investment proceeds from money market funds	3,709,678
Interest and dividend income	106,049
Salvage and subrogation recoveries	14,297
Reinsurance recoveries	192,735
Proceeds - Guarantee Title & Trust estate closure - remaining holdback	21,405
Proceeds - Physicians Assurance Corporation estate closure - remaining holdback	19,412
Reimbursement of losses paid	75,000
Return of statutory deposit	124,621
Other income	1,924
Total cash receipts	<u>9,962,152</u>
CASH DISBURSEMENTS	
Salaries, wages and employee benefits	330,013
Professional fees	60,408
General and administrative expenses	143,812
Interim distribution to Insurance Guaranty Associations	9,276,203
Interim distribution to Class 2 claimants - non IGA	159,286
Total cash disbursements	<u>9,969,722</u>
CASH AT JUNE 30, 2012	<u>\$ 11,588</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 September 27, 2011, the Franklin County, Ohio Court of Common Pleas ordered the Guarantee Title and Trust Company liquidation estate (the "Guarantee Title and Trust Estate") closed and the liquidation case terminated (the "Guarantee Title and Trust Closing Order"). In its Guarantee Title and Trust Closing Order, the Court authorized the Liquidator to close all of the Guarantee Title and Trust Estate's bank accounts and to take all actions required to close the Guarantee Title and Trust liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the Guarantee Title and Trust Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Guarantee Title and Trust Estate. At the time of the Guarantee Title and Trust Closing Order, \$21,405 of the reserved funds remained. The Guarantee Title and Trust Closing Order approved the Liquidator's pre-payment of \$21,405 of the Guarantee Title and Trust Estate's unpaid administrative expenses related to the closure of the Guarantee Title and Trust Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Guarantee Title and Trust case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Guarantee Title and Trust Estate. The payment of \$21,405 and receipt of these funds were reported, respectively, in the Guarantee Title and Trust 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 October 25, 2011, the Franklin County, Ohio Court of Common Pleas ordered the Physicians Assurance Corporation liquidation estate (the "Physicians Assurance Corporation Estate") closed and the liquidation case terminated (the "Physicians Assurance Corporation Closing Order"). In its Physicians Assurance Corporation Closing Order, the Court authorized the Liquidator to close all of the Physicians Assurance Corporation Estate's bank accounts and to take all actions required to close the Physicians Assurance Corporation Estate and carry out the Court's Order. When the Liquidator made the final distribution of the Physicians Assurance Corporation Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Physicians Assurance Corporation Estate. At the time of the Physicians Assurance Corporation Closing Order, \$19,412 of the reserved funds remained. The Physicians Assurance Corporation Closing Order approved the Liquidator's pre-payment of \$19,412 of the Physicians Assurance Corporation Estate's unpaid administrative expenses related to the closure of the Physicians Assurance Corporation Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Physicians Assurance Corporation case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Physicians Assurance Corporation Estate. The payment of \$19,412 and receipt of these funds were reported respectively in the Physicians Assurance Corporation 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.

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 Federal Government bonds are recorded at amortized cost.

At June 30, 2012 and 2011, invested assets and their carrying values consisted of the following:

	2012 Carrying Value	2011 Carrying Value
Money market funds	\$ 1,309,960	\$ 5,019,639
Federal Government bonds at amortized cost	13,495,825	19,188,880
Certificate of deposit	<u>250,000</u>	<u>250,000</u>
	<u>\$15,055,785</u>	<u>\$24,458,519</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2012 and 2011 was \$129,349 and \$835,948, respectively. The change in special deposits balances for the current audit period is primarily due to the release and final accounting of \$703,978 which includes the return of the statutory deposit in Virginia special deposits to pay known Virginia IGA losses.

Note 5. Distributions

Pursuant to the November 21, 2011 Order of the Court, the Estate made its third interim distribution payment to Insurance Guaranty Associations totaling \$9,276,203.24 on November 23, 2011. The Estate also made its first interim distribution payment totaling \$159,285.74 to non-guaranty Class 2 claimants on November 23, 2012.

Note 6. 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.

Note 7. 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 September 14, 2012, which is the date that the financial statements were available to be issued. No material subsequent events were noted.