

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. 00CVH03-2431
	:	
LMI Insurance Company,	:	Judge Charles A. Schneider
	:	
Defendant.	:	

**MOTION FOR APPROVAL OF LIQUIDATOR’S REPORT OF INDEPENDENT
AUDITORS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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, 2013 and 2012, 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

/s/Scott R. Mergenthaler

_____ Dennis J. Concilla (0012254)

dconcilla@cpmlaw.com

Carl A. Aveni, II (0070664)

caveni@cpmlaw.com

Scott R. Mergenthaler (0012869)

smergenthaler@cpmlaw.com

366 East Broad Street

Columbus, Ohio 43215

Telephone: (614) 228-6135

Facsimile: (614) 221-0216

*Attorneys for Mary Taylor, in her capacity as
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, 2013 and 2012 and the related statements of cash receipts and cash disbursements for the years ended June 30, 2013 and 2012. Maloney + Novotny LLC issued the Report containing its audit findings which opines that the Liquidator's financial statements present fairly, in all material respects, both the cash and invested assets of LMI at June 30, 2013 and 2012 and cash receipts and cash disbursements for the years ended June 30, 2013 and 2012.

By this Motion, the Liquidator seeks this Court's approval of the Annual Report of Independent Auditors for the years ended June 30, 2013 and 2012 (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 _____

Dennis J. Concilla (0012254)

dconcilla@cpmlaw.com

Carl A. Aveni, II (0070664)

caveni@cpmlaw.com

Scott R. Mergenthaler (0012869)

smergenthaler@cpmlaw.com

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Facsimile: (614) 221-0216

*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, 2013 and 2012 was posted on the Liquidator's website (www.ohliq.com) substantially contemporaneous with the filing of this Motion.

/s/ Scott R. Mergenthaler _____

Scott R. Mergenthaler (0012869)

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

FINANCIAL REPORT

JUNE 30, 2013 and 2012

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

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of cash and invested assets	3
Statement of cash receipts and cash disbursements	4
Notes to financial statements	5-8

1111 Superior Avenue | Suite 700 | Cleveland, Ohio 44114-2546
P 216.363.6100 F 216.363.9500 W maloney-novotny.com



maloney+novotny LLC

Independent Auditors' Report

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

We have audited the accompanying financial statements of LMI Insurance Company, in Liquidation ("Estate"), which comprise the statements of cash and invested assets arising from cash transactions of LMI Insurance Company, in Liquidation as of June 30, 2013 and 2012, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2013, and the related notes to the financial statements.

Office of the Ohio Insurance Liquidator's Responsibility for the Financial Statements

The Office of the Ohio Insurance Liquidator is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Office of the Ohio Insurance Liquidator and the Franklin County, Ohio Common Pleas Court. The Office of the Ohio Insurance Liquidator is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Office of the Ohio Insurance Liquidator, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

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, 2013 and 2012, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2013 in accordance with the accounting practices prescribed or permitted by the Office of the Ohio Insurance Liquidator and the Franklin County, Ohio Common Pleas Court as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Office of the Ohio Insurance Liquidator on the accounting practices prescribed or permitted by the Office of the Ohio Insurance Liquidator and the Franklin County, Ohio Common Pleas Court, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter. The financial statements are not intended to be a complete presentation of the Estate's assets and liabilities.

Restriction on Use

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.

Meloney + Novotny LLC

Cleveland, Ohio
September 4, 2013

LMI INSURANCE COMPANY,
IN LIQUIDATION

STATEMENTS OF CASH AND INVESTED ASSETS

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash	\$ 37,182	\$ 11,588
Invested assets	<u>15,019,926</u>	<u>15,055,785</u>
	<u>\$15,057,108</u>	<u>\$15,067,373</u>

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

LMI INSURANCE COMPANY,
IN LIQUIDATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year Ended June 30, 2013

CASH AT JULY 1, 2012	\$ 11,588
CASH RECEIPTS	
Net investment proceeds from money market funds	233,834
Interest and dividend income	50,351
Salvage and subrogation recoveries	19,703
Reinsurance recoveries	169,913
Proceeds - Acceleration National Insurance estate closure - remaining holdback	15,902
Proceeds - Home Value Insurance estate closure - remaining holdback	18,169
Recovery from Property & Casualty Insurance Guarantee Corp	17,911
Miscellaneous interest income	41
Other income	<u>6,209</u>
Total cash receipts	532,033
CASH DISBURSEMENTS	
Net investment purchases of bonds	193,059
Salaries, wages and employee benefits	184,113
Professional fees	39,374
General and administrative expenses	<u>89,893</u>
Total cash disbursements	<u>506,439</u>
 CASH AT JUNE 30, 2013	 <u><u>\$ 37,182</u></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 November 21, 2012, the Franklin County, Ohio Court of Common Pleas ordered the Acceleration National Insurance Company liquidation estate (the "Acceleration National Insurance Estate") closed and the liquidation case terminated (the "Acceleration National Insurance Closing Order"). In its Acceleration National Insurance Closing Order, the Court authorized the Liquidator to close all of the Acceleration National Insurance Estate's bank accounts and to take all actions required to close the Acceleration National Insurance liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the Acceleration National Insurance Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Acceleration National Insurance Estate. At the time of the Acceleration National Insurance Closing Order, \$15,902 of the reserved funds remained. The Acceleration National Insurance Closing Order approved the Liquidator's pre-payment of \$15,902 of the Acceleration National Insurance Estate's unpaid administrative expenses related to the closure of the Acceleration National Insurance Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Acceleration National Insurance case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Acceleration National Insurance Estate. The payment of \$15,902 and receipt of these funds were reported, respectively, in the Acceleration National Insurance 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 December 27, 2012, the Franklin County, Ohio Court of Common Pleas ordered the Home Value Insurance Company liquidation estate (the "Home Value Insurance Estate") closed and the liquidation case terminated (the "Home Value Insurance Closing Order"). In its Home Value Insurance Closing Order, the Court authorized the Liquidator to close all of the Home Value Insurance Estate's bank accounts and to take all actions required to close the Home Value Insurance Estate and carry out the Court's Order. When the Liquidator made the final distribution of the Home Value Insurance Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Home Value Insurance Estate. At the time of the Home Value Insurance Closing Order, \$18,169 of the reserved funds remained. The Home Value Insurance Closing Order approved the Liquidator's pre-payment of \$18,169 of the Home Value Insurance Estate's unpaid administrative expenses related to the closure of the Home Value Insurance Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Home Value Insurance case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Home Value Insurance Estate. The payment of \$18,169 and receipt of these funds were reported, respectively, in the Home Value Insurance 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, 2013 and 2012, invested assets and their carrying values consisted of the following:

	2013 Carrying Value	2012 Carrying Value
	<u> </u>	<u> </u>
Money market funds	\$ 1,076,127	\$ 1,309,960
Federal Government bonds at amortized cost	13,693,799	13,495,825
Certificate of deposit	<u>250,000</u>	<u>250,000</u>
	<u>\$15,019,926</u>	<u>\$15,055,785</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, 2013 and 2012 was \$129,213 and \$129,349, respectively.

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.

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 September 4, 2013, which is the date that the financial statements were available to be issued. No material subsequent events were noted.