

IN THE COURT OF COMMON PLEAS
FRANKLIN COUNTY, OHIO

MARY TAYLOR, Ohio Superintendent of	:	
Insurance, in her capacity as Liquidator of	:	
LMI Insurance Company,	:	Case No. 00-CV-002431
	:	
Plaintiff,	:	Judge Charles A. Schneider
	:	
v.	:	
	:	
LMI Insurance Company,	:	
	:	
Defendant.	:	

**MOTION FOR APPROVAL OF LIQUIDATOR’S REPORT OF INDEPENDENT
AUDITORS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

Mary Taylor, Ohio Superintendent of Insurance, in her capacity as Liquidator of LMI Insurance Company (“LMI”), requests this Court for an order approving her Report of Independent Auditors for the years ended June 30, 2014 and 2013, which is attached and incorporated by reference as Exhibit A.

The reasons in support of this Motion are set forth in the accompanying Memorandum in Support.

Respectfully submitted,

MIKE DEWINE
Attorney General State 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*

MEMORANDUM IN SUPPORT OF MOTION

By Order of this Court entered on May 23, 2000, the Ohio Superintendent of Insurance and successors in office was appointed Liquidator of LMI Insurance Company pursuant to R.C. 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, 2014 and 2013 and the related statements of cash receipts and cash disbursements for the years ended June 30, 2014 and 2013. 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, 2014 and 2013 and cash receipts and cash disbursements for the years ended June 30, 2014 and 2013.

By this Motion, the Liquidator seeks this Court's approval of the Annual Report of Independent Auditors for the years ended June 30, 2014 and 2013 (the "Report"), attached hereto as Exhibit A.

Respectfully submitted,

MIKE DEWINE
Attorney General State of Ohio

By Special Counsel:
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/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 the Liquidator's Report of the Independent Auditors for the Years Ended June 30, 2014 and 2013* 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, 2014 and 2013

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

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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, 2014 and 2013, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2014, 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

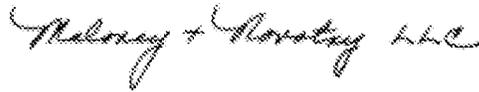
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and invested assets arising from cash transactions of LMI Insurance Company, in Liquidation as of June 30, 2014 and 2013, and the related statement of cash receipts and cash disbursements for the year ended June 30, 2014 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 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, 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.



Cleveland, Ohio
August 27, 2014

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
LMI INSURANCE COMPANY,
IN LIQUIDATIONEXHIBIT A

STATEMENTS OF CASH AND INVESTED ASSETS

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash	\$ 67,902	\$ 37,182
Invested assets	<u>14,813,724</u>	<u>15,019,926</u>
	<u>\$14,881,626</u>	<u>\$15,057,108</u>

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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
LMI INSURANCE COMPANY,
IN LIQUIDATIONEXHIBIT A

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year Ended June 30, 2014

CASH AT JULY 1, 2013	\$ 37,182
CASH RECEIPTS	
Net investment proceeds from money market funds	604,987
Net investment proceeds in certificate of deposit	250,000
Interest and dividend income (including interest paid on bonds)	13,653
Salvage and subrogation recoveries	51,220
Reinsurance recoveries	100
Proceeds - American Chambers Life Ins. Co. estate closure - remaining holdback	16,547
Proceeds - Credit General Indemnity estate closure - remaining holdback	23,707
Other income	5,884
Total cash receipts	<u>966,098</u>
CASH DISBURSEMENTS	
Net investment purchases of bonds	642,894
Salaries, wages and employee benefits	210,990
Professional fees	42,629
General and administrative expenses	36,757
Reorganization and consolidation of records	2,108
Total cash disbursements	<u>935,378</u>
CASH AT JUNE 30, 2014	<u>\$ 67,902</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 December 2, 2013, the Franklin County, Ohio Court of Common Pleas ordered the American Chambers Life Insurance Company liquidation estate (the "American Chambers Life Insurance Estate") closed and the liquidation case terminated (the "American Chambers Insurance Company Closing Order"). In its American Chambers Life Insurance Company Closing Order, the Court authorized the Liquidator to close all of the American Chambers Life Insurance Company Estate's bank accounts and to take all actions required to close the American Chambers Life Insurance Company liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the American Chambers Life Insurance Company Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the American Chambers Life Insurance Company Estate. At the time of the American Chambers Life Insurance Company Closing Order, \$33,050 of the reserved funds remained. The American Chambers Life Insurance Company Closing Order approved the Liquidator's pre-payment of \$33,050 of the American Chambers Life Insurance Company Estate's unpaid administrative expenses related to the closure of the American Chambers Life Insurance Company Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the American Chambers Life Insurance Company case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the American Chambers Life Insurance Company Estate. The payment of \$33,050 and receipt of these funds were reported, respectively, in the American Chambers Life Insurance Company 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 10, 2013, the Franklin County, Ohio Court of Common Pleas ordered the Credit General Indemnity Company liquidation estate (the "Credit General Indemnity Company Estate") closed and the liquidation case terminated (the "Credit General Indemnity Company Closing Order"). In its Credit General Indemnity Company Closing Order, the Court authorized the Liquidator to close all of the Credit General Indemnity Company Estate's bank accounts and to take all actions required to close the Credit General Indemnity Company Estate and carry out the Court's Order. When the Liquidator made the final distribution of the Credit General Indemnity Company Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Credit General Indemnity Company Estate. At the time of the Credit General Indemnity Company Closing Order, \$44,287 of the reserved funds remained. The Credit General Indemnity Company Closing Order approved the Liquidator's pre-payment of \$44,287 of the Credit General Indemnity Company Estate's unpaid administrative expenses related to the closure of the Credit General Indemnity Company Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Credit General Indemnity Company case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Credit General Indemnity Company Estate. The payment of \$44,287 and receipt of these funds were reported, respectively, in the Credit General Indemnity Company 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Invested Assets (Continued)

At June 30, 2014 and 2013, invested assets and their carrying values consisted of the following:

	2014 Carrying Value	2013 Carrying Value
	<u> </u>	<u> </u>
Money market funds	\$ 471,140	\$ 1,076,127
Federal Government bonds at amortized cost	14,342,584	13,693,799
Certificate of deposit	<u> -</u>	<u> 250,000</u>
	<u>\$14,813,724</u>	<u>\$15,019,926</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, 2014 and 2013 was \$-0- and \$129,213, respectively. During the course of the liquidation, the Georgia statutory deposit in the amount of \$129,213 was released to the Georgia Insurers Insolvency Pool ("GIIP") by the Georgia Department of Insurance.

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 August 27, 2014, which is the date that the financial statements were available to be issued. No material subsequent events were noted.