

IN THE COURT OF COMMON PLEAS  
FRANKLIN COUNTY, OHIO

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

**MOTION FOR APPROVAL OF LIQUIDATOR’S FINAL REPORT OF INDEPENDENT AUDITORS FOR THE PERIODS ENDED DECEMBER 31, 2014 AND JUNE 30, 2014**

Mary Taylor, Ohio Superintendent of Insurance, in her capacity as Liquidator of LMI Insurance Company (“LMI”), requests this Court to approve her Final Report of Independent Auditors for the periods ended December 31, 2014 and June 30, 2014, which is attached as **Exhibit A** and incorporated by reference into this Motion.

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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**MEMORANDUM IN SUPPORT OF MOTION**

On December 18, 2014, this Court entered a Final Closing Order terminating the LMI Insurance Company (“LMI”) liquidation proceedings, discharging the Liquidator, closing LMI’s bank accounts and closing this liquidation estate (the “Closing Order”). Pursuant to R.C. Section 3903.46(A), the Closing Order requires the Liquidator to file a final audit report for post-closure approval. This Motion requests approval of the Final Report of Independent Auditors for the periods ended June December 31, 2014 and June 30, 2014 (the “Report”).

Pursuant to the Liquidation Order entered in this case on May 23, 2000, LMI was ordered liquidated pursuant to R.C. Chapter 3903. Further, the Liquidation Order appointed the Ohio Superintendent of Insurance and successors in office as LMI’s Liquidator, and directed the Liquidator to take possession of the assets of LMI and empowered, authorized and directed the Liquidator to liquidate LMI’s property and assets in accordance with the laws of Ohio and under the general supervision and continuing jurisdiction of this Court.

One of the Liquidator’s primary responsibilities was the marshaling of assets of the LMI liquidation estate, for ultimate distribution to the estate’s policyholders and creditors pursuant to R.C. Chapter 3903. The Liquidator therefore undertook to collect debts and moneys due to LMI and make payment of necessary expenses pursuant to the Liquidation Order and R.C. Chapter 3903. In the process of marshaling LMI’s assets, the Liquidator routinely received and deposited cash and purchased and sold 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. As required by R.C. 3903.18(E) and the Liquidation Order, the Liquidator filed Periodic Accountings of this activity semi-annually with the Court in the form of

a statement of receipts and disbursements throughout the pendency of LMI's liquidation proceedings. This Court approved all of the Liquidator's Periodic Accountings in this case.

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 cash receipts and disbursements and purchase and sale of investment securities, and internal controls relating to these activities, 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 audits. The Liquidator requested the auditing firm to render an opinion in its audit reports 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 final audit of the statements of cash and invested assets of LMI as of December 31, 2014 and June 30, 2014, and the related statements of cash receipts and cash disbursements for the periods ended December xx, 2014 and June 30, 2014. 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 December 31, 2014 and June 30, 2014, and cash receipts and cash disbursements for the periods ended December 31, 2014 and June 30, 2014.

By this Motion, the Liquidator seeks this Court’s approval of the Final Report of Independent Auditors for the periods ended December 31, 2014 and June 30, 2014 (the “Report”), attached as Exhibit A.

Respectfully submitted,

**MIKE DEWINE**  
**Attorney General State of Ohio**

By Special Counsel:

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and accurate copy of the foregoing *Motion for Approval of Liquidator’s Final Report of Independent Auditors for the Periods Ended December 31, 2014 and June 30, 2014* was posted on the Ohio Department of Insurance’s website regarding Ohio Insurance Liquidations ([www.insurance.ohio.gov/liq](http://www.insurance.ohio.gov/liq)) 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**

**DECEMBER 31, 2014 and JUNE 30, 2014**

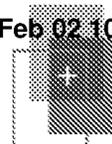
OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
IN LIQUIDATION

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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 December 31, 2014 and June 30, 2014, and the related statement of cash receipts and cash disbursements for the period July 1, 2014 to December 31, 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 December 31, 2014 and June 30, 2014, and the related statement of cash receipts and cash disbursements for the period July 1, 2014 to December 31, 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.

*Meloney + Novotny LLC*

Cleveland, Ohio  
January 30, 2015

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

## STATEMENTS OF CASH AND INVESTED ASSETS

December 31, 2014 and June 30, 2014

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	December 31, <u>2014</u>	June 30, <u>2014</u>
Cash	\$ 28,745	\$ 67,902
Invested assets	<u>-</u>	<u>14,813,724</u>
	<u>\$ 28,745</u>	<u>\$14,881,626</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

Period July 1, 2014 to December 31, 2014

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CASH AT JULY 1, 2014	\$ 67,902
<b>CASH RECEIPTS</b>	
Net investment proceeds from money market funds	471,140
Net investment proceeds in federal government bonds	14,343,000
Interest and dividend income (including interest paid on bonds)	5,381
Salvage and subrogation recoveries	6,227
Reinsurance recoveries	238
Proceeds - Credit General Insurance estate closure - remaining holdback	151,166
Other income	4,148
Total cash receipts	<u>14,981,300</u>
<b>CASH DISBURSEMENTS</b>	
Salaries, wages and employee benefits	256,769
Professional fees	49,988
General and administrative expenses	33,434
Final distributions to Class 1 and Class 2 claimants - Insurance Guaranty Associations	14,549,032
Final distributions to Class 2 claimants - Non-Insurance Guaranty Associations	131,234
Total cash disbursements	<u>15,020,457</u>
CASH AT DECEMBER 31, 2014	<u>\$ 28,745</u>

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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
LMI INSURANCE COMPANY,  
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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.

**Note 2. Order to Dissolve the LMI Insurance Company**

On December 18, 2014, the Court issued a final Order Closing the LMI Insurance Estate and terminating the liquidation case (the "Closing Order").

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Order to Dissolve the LMI Insurance Company (Continued)**

On November 12, 2014, the Franklin County, Ohio Court of Common Pleas ordered the Credit General Insurance liquidation estate (the "Credit General Insurance Estate") closed and the liquidation case terminated (the "Credit General Insurance Company Closing Order"). In its Credit General Insurance Company Closing Order, the Court authorized the Liquidator to close all of the Credit General Insurance Company Estate's bank accounts and to take all actions required to close the Credit General Insurance Company liquidation estate and carry out the Court's Order. When the Liquidator made the final distribution of the Credit General Insurance Company Estate's assets, an amount was reserved (held-back) to pay administrative expenses related to the closure of the Credit General Insurance Company Estate. At the time of the Credit General Insurance Company Closing Order, \$151,166 of the reserved funds remained. The Credit General Insurance Company Closing Order approved the Liquidator's pre-payment of \$151,166 of the Credit General Insurance Company Estate's unpaid administrative expenses related to the closure of the Credit General Insurance Company Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Credit General Insurance Company case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Credit General Insurance Company Estate. The payment of \$151,166 and receipt of these funds were reported, respectively, in the Credit General 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.

The Closing Order also ordered the LMI Insurance Company to be dissolved pursuant to Ohio Revised Code Section 3903.20, which occurred on December 31, 2014 and all assets had been distributed except for \$28,745, which is discussed under Note 5. Subsequent Events.

**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 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 December 31, 2014 and June 30, 2014, invested assets and their carrying values consisted of the following:

	December 31, 2014 Carrying Value	June 30, 2014 Carrying Value
	<u>                    </u>	<u>                    </u>
Money market funds	\$ -	\$ 471,140
Federal Government bonds at amortized cost	<u>-</u>	<u>14,342,584</u>
	<u>\$ -</u>	<u>\$14,813,724</u>

**Note 4. Distributions**

On October 23, 2014, the Liquidation Court ordered the LMI Insurance Estate to make a 100% final distribution of the remaining assets to Class 1 claimants and to make a final pro-rata distribution of the remaining assets in Class 2.

**Note 5. 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. The December 31, 2014 cash balance of \$28,745 was paid out on January 2, 2015 to the Ohio Insurance Deputy Liquidators for their administration of post-closing obligations pursuant to the court-approved Final Closing Orders providing for the termination of the liquidation proceedings and the closing of the LMI Insurance Company and Credit General Insurance Company liquidation estates. No other material subsequent events were noted through January 30, 2015.