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IN THE COURT OF COMMON PLEAS, FRANKLIN COUNTY, OHIO

MARY TAYLOR,	:	
Superintendent of Insurance	:	CASE NO. 08CVH07-10725
in her Capacity as Liquidator of	:	
The Guarantee Title and Trust Company,	:	
	:	JUDGE GUY L. REECE, II
Plaintiff,	:	
	:	
vs.	:	
	:	
The Guarantee Title and Trust Company,	:	
	:	
Defendant.	:	

**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 (“Liquidator”) of The Guarantee Title and Trust Company (“GTT”), 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 is hereby incorporated by reference into this Motion. A Memorandum in Support is attached and incorporated by reference.

Respectfully submitted,

MIKE DE WINE  
Attorney General State of Ohio

By Outside Counsel:  
KOHLMAN, JACKSON & KRANTZ, LLP

  
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 Attorneys for Mary Taylor, Superintendent, Ohio  
 Department of Insurance, in her Capacity as  
 Liquidator of The Guarantee Title and Trust Company

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**MEMORANDUM IN SUPPORT**

This Liquidator requests this Court to approve the Report of Independent Auditors for the years ended June 30, 2011 and 2010 (the "Report"). The Report is attached as Exhibit A and is incorporated by reference.

Pursuant to the Liquidation Order entered in this case on October 27, 2008, GTT was ordered liquidated pursuant to R.C. Chapter 3903. Further, the Liquidator Order appointed the Ohio Superintendent of Insurance as GTT's Liquidator and empowered, authorized and directed the Liquidator to liquidate GTT's property and assets in accordance with the laws of Ohio and under the continuing jurisdiction of this Court.

As part of the liquidation and pursuant to the Liquidation Order and R.C. Chapter 3903, the Liquidator undertook to collect all debts and moneys due to GTT, and makes payment of necessary expenses. The Liquidation Order and R.C. 3903.21(A)(4) provide, in pertinent part, that the Liquidator may:

Pay reasonable compensation to persons appointed and defray from the funds or assets of the insurer all expenses of taking possession of, conserving, conducting, liquidating, disposing of or otherwise dealing with the business and property of the insurer.

Section 3903.42(A) provides that the expenses of administration are to be given first priority in the distribution of assets.

The Liquidator is also required by R.C. 3903.18(E) and paragraph 25 of the Liquidation Order to submit accountings semi-annually to the Court in the form of a statement of receipts and disbursements of the Liquidator throughout the pendency of GTT's liquidation proceedings (the "Periodic Accountings").

In the process of marshaling GTT's assets, the Liquidator routinely receives and deposits cash and purchases and sells various investment securities. In order to record this activity, the

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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.

Consistent with long standing liquidation procedures, the Liquidator hires 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 January 11, 2011, 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 Accountings, 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 GTT 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 GTT 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 as Exhibit A.

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A proposed order has been electronically submitted to this Court.

Respectfully submitted,

MIKE DE WINE  
Attorney General State of Ohio

By Outside Counsel:  
KOHHRMAN, JACKSON & KRANTZ, LLP



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*Attorneys for Mary Taylor, Superintendent, Ohio  
Department of Insurance, in her Capacity as  
Liquidator of The Guarantee Title and Trust Company*

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**CERTIFICATE OF SERVICE**

I hereby certify that in accordance with paragraph 41 of the Liquidation Order, a true and accurate copy of the foregoing Motion for the Approval of Liquidator's Independent Auditors Reports was posted on the Liquidator's website ([www.ohliq.com](http://www.ohliq.com)) substantially contemporaneous with the filing of this Motion.



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Valoria C. Hoover (0059596)

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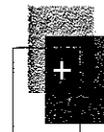
**EXHIBIT A**

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**OFFICE OF THE OHIO  
INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST COMPANY,  
IN LIQUIDATION**

**FINANCIAL REPORT**

**JUNE 30, 2011 and 2010**



maloney+novotny<sub>llc</sub>

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST COMPANY,  
IN LIQUIDATION

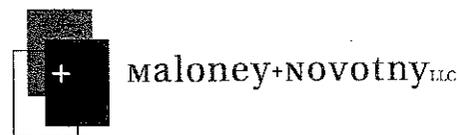
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Lynda G. Loomis  
Chief Deputy Liquidator  
Office of the Ohio Insurance Liquidator  
Guarantee Title & Trust Company, in Liquidation

Independent Auditors' Report

We have audited the accompanying statement of cash and invested assets arising from cash transactions of Guarantee Title & Trust 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 Guarantee Title & Trust 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 Guarantee Title & Trust 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

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST 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	\$ 2,469	\$ 30,521
Invested assets	<u>32,275</u>	<u>1,143,595</u>
	<u>\$ 34,744</u>	<u>\$1,174,116</u>

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

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST COMPANY,  
IN LIQUIDATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year Ended June 30, 2011

CASH AT JULY 1, 2010	\$ 30,521
<b>CASH RECEIPTS</b>	
Investment proceeds from money market funds	1,119,851
Investment proceeds from certificates of deposit	100,000
Interest and dividend income	11,687
Recoveries from claim recoupments	105,000
Notes receivable	1,108
Return of special deposits	1,460,029
Proceeds from sale of assets	378
Proceeds from settlement of directors and officers	302,500
Return of monies held in trust	40,000
Release of funds held in escrow accounts	121,802
Other income	1,291
Total cash receipts	<u>3,263,646</u>
<b>CASH DISBURSEMENTS</b>	
Investment purchases in money market funds	8,531
Salaries, wages and employee benefits	100,198
Professional fees	68,747
Final distribution - Class 1 claims - Insurance Guaranty Association (IGA)	140,309
Final distribution - Class 2 claims - loss/loss adjustment expense - non IGA	1,873,025
Final distribution - Illinois special deposit claims - Class 2 - loss/loss adjustment expense	1,044,569
Reissue voided escrow check	729
Settlement Class 1 claim administrative expense	1,025
General and administrative expenses	54,565
Total cash disbursements	<u>3,291,698</u>
CASH AT JUNE 30, 2011	<u>\$ 2,469</u>

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

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST 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.

Guarantee Title & Trust Company ("Company") was placed in liquidation on October 27, 2008 by the Court and it became Guarantee Title & Trust 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. 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.

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST COMPANY,  
IN LIQUIDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Invested Assets (Continued)**

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

	2011 Carrying Value	2010 Carrying Value
Money market funds	<u>\$ 32,275</u>	<u>\$1,143,595</u>

**Note 3. 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 proceedings, 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 \$-0- and \$1,676,489, respectively. The change in special deposit balances during the audit period is primarily due to \$1,460,029 being returned to the Estate and \$111,724 being paid out as court ordered payment to South Carolina Insurance Guarantee Association for Class 2 loss/loss adjustment expense claims.

**Note 4. Distributions**

Pursuant to the June 8, 2011 Order of the Court, the Estate made a final distribution payment to Class 1 and 2 claimants totaling \$2,013,344 on June 22, 2011. In addition, on May 12, 2011, the Liquidation Court ordered the Estate to make a final prorata distribution from the Illinois returned special deposit to be paid to Class 2 claimants. On June 22, 2011, the Estate disbursed \$1,044,569 to Class 2 Illinois claimants.

**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.

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OFFICE OF THE OHIO INSURANCE LIQUIDATOR  
GUARANTEE TITLE & TRUST 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. On September 27, 2011, the Liquidation Court issued a Final Order authorizing a supplemental final distribution to certain Class 2 claimants, closing the Estate and terminating the liquidation case. Subsequent events have been evaluated through October 7, 2011, which is the date that the financial statements were available to be issued. No other material subsequent events were noted.