

IN THE COURT OF COMMON PLEAS, FRANKLIN COUNTY, OHIO

Mary Taylor,	:	
Ohio Superintendent of Insurance,	:	CASE NO. 09CVH 08 12492
In her Capacity as Liquidator of	:	
The Physicians' Assurance Corporation,	:	JUDGE LAUREL BEATTY
	:	
Plaintiff,	:	
	:	
vs.	:	
	:	
The Physicians' Assurance Corporation,	:	
	:	
Defendant.	:	

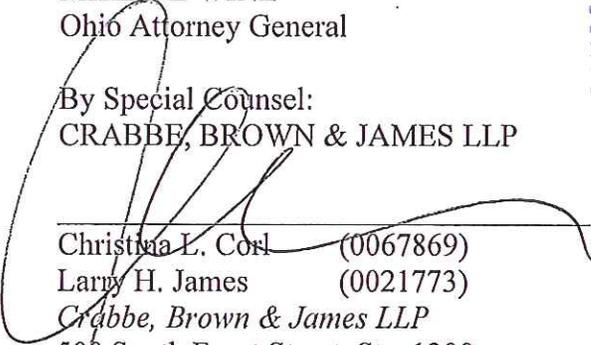
MOTION FOR THE APPROVAL OF LIQUIDATOR'S INDEPENDENT AUDITORS REPORTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Plaintiff, Mary Taylor in her capacity as Liquidator ("Liquidator") of The Physicians' Assurance Corporation ("TPAC"), 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 and hereby incorporated by reference into this Motion. A Memorandum in Support is attached and incorporated by reference.

Respectfully submitted,

MIKE DE WINE
Ohio Attorney General

By Special Counsel:
CRABBE, BROWN & JAMES LLP


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FILED
 COMMON PLEAS COURT
 FRANKLIN CO. OHIO
 2011 OCT 20 PM 3:56
 CLERK OF COURTS-CV

MEMORANDUM IN SUPPORT

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

Pursuant to the Liquidation Order entered in this case on August 18, 2009, TPAC was ordered liquidated pursuant to R.C. Chapter 3903. Further, the Liquidator Order appointed the Ohio Superintendent of Insurance as TPAC's Liquidator and empowered, authorized and directed the Liquidator to liquidate all of TPAC'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 where reasonable debts and moneys due to TPAC, and make 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 10(c) 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 TPAC's liquidation proceedings (the "Periodic Accountings").

In the process of marshaling TPAC's 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.

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 25, 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.

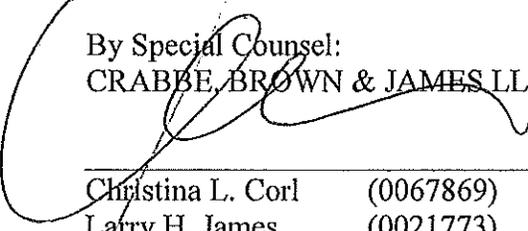
Maloney + Novotny LLC completed its audit of the statements of cash and invested assets of TPAC as of June 30, 2011 and 2010 and the related statements of cash receipts and cash disbursements for the years ended June 30, 2011 and 2010. Maloney + Novotny LLC issued the Report containing its audit findings which opine that the Liquidator's financial statements present fairly, in all material respects, both the cash and invested assets of TPAC 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 hereto as Exhibit A.

Respectfully submitted,

MIKE DE WINE
Ohio Attorney General

By Special Counsel:
CRABBE, BROWN & JAMES LLP


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The Physicians' Assurance Corporation*

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing Motion for Approval of the Report of Independent Auditors was posted on the Liquidator's website (www.ohliq.com) substantially contemporaneous with the filing of this Motion and per agreement, sent via email to the following non-parties:

Joshua D. Weber, Esq., *Charles Misfud LLC*
Brian Gianangeli, Esq., *Charles Misfud LLC*
Charles A. Misfud, Esq., *Charles Misfud LLC*


Christina L. Corl (0067869)

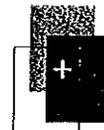
EXHIBIT A

**Independent Auditors' Report
For the years ended June 30, 2011 and 2010**

**OFFICE OF THE OHIO
INSURANCE LIQUIDATOR
THE PHYSICIANS ASSURANCE
CORPORATION,
IN LIQUIDATION**

FINANCIAL REPORT

JUNE 30, 2011 and 2010



maloney+novotny llc

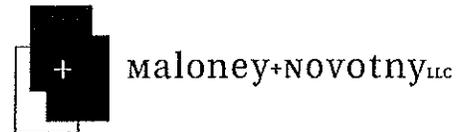


OFFICE OF THE OHIO INSURANCE LIQUIDATOR
THE PHYSICIANS ASSURANCE CORPORATION,
IN LIQUIDATION

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Lynda G. Loomis
Chief Deputy Liquidator
Office of the Ohio Insurance Liquidator
The Physicians Assurance Corporation, in Liquidation

Independent Auditors' Report

We have audited the accompanying statement of cash and invested assets arising from cash transactions of The Physicians Assurance Corporation, 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 The Physicians Assurance Corporation, 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 The Physicians Assurance Corporation, 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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
THE PHYSICIANS ASSURANCE CORPORATION,
IN LIQUIDATION

STATEMENTS OF CASH AND INVESTED ASSETS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash	\$ 8,760	\$ 50,194
Invested assets	<u>1,585,969</u>	<u>3,554,756</u>
	<u>\$1,594,729</u>	<u>\$3,604,950</u>

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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
THE PHYSICIANS ASSURANCE CORPORATION,
IN LIQUIDATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year Ended June 30, 2011

CASH AT JULY 1, 2010	\$ 50,194
CASH RECEIPTS	
Investment proceeds from money market	1,923,663
Investment proceeds from certificates of deposit	6,630
Interest and dividend income (including interest paid on bonds)	1,494
Reinsurance recoveries	10,116
Reimbursements of paid claims	10,695
Uncashed and voided checks	231
Pharmacy rebates	44,079
Salvage and subrogation	92
Return of salary advances - commission payments	1,282
Recovery from settlement agreement	4,610
Return of security deposits	4,734
Proceeds from sale of assets	505
Total cash receipts	<u>2,008,131</u>
CASH DISBURSEMENTS	
Investment purchases in money market funds	158
Salaries, wages and employee benefits	54,605
Professional fees	45,206
General and administrative expenses	17,985
Return of claim recoveries to Ohio Insurance Guaranty Association (IGA)	6,007
Return of pharmacy rebate to Ohio IGA	37,659
Return of premium to Ohio IGA	1,224,006
Interim distribution to Ohio IGA on Class 1 claim	663,939
Total cash disbursements	<u>2,049,565</u>
CASH AT JUNE 30, 2011	<u>\$ 8,760</u>

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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
THE PHYSICIANS ASSURANCE CORPORATION,
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.

The Physicians Assurance Corporation ("Company") was placed in liquidation on August 18, 2009 by the Court and it became The Physicians Assurance Corporation, 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 and certificates of deposit are recorded at cost, which approximates fair value.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
 THE PHYSICIANS ASSURANCE CORPORATION,
 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:

	<u>2011 Carrying Value</u>	<u>2010 Carrying Value</u>
Money market funds	\$1,577,599	\$3,501,104
Certificates of deposit	<u>8,370</u>	<u>53,652</u>
	<u>\$1,585,969</u>	<u>\$3,554,756</u>

Note 3. Distribution

Pursuant to the December 7, 2010 Order of the Court, the Estate made an interim distribution payment to the Ohio Insurance Guaranty Association totaling \$663,939 on December 31, 2010.

Note 4. 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 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. Subsequent events have been evaluated through October 7, 2011, which is the date that the financial statements were available to be issued. No material subsequent events were noted.