

**IN THE COMMON PLEAS COURT OF  
FRANKLIN COUNTY, OHIO**

ANN H. WOMER BENJAMIN  
Ohio Superintendent of Insurance,  
in her capacity as Liquidator of Credit General  
Insurance Company and Credit General  
Indemnity Company,

Plaintiff,

v.

Credit General Insurance Company, et al.,

Defendants.

Case No. 00CVH-11-9867

Judge Pfeiffer

**MOTION FOR APPROVAL OF LIQUIDATOR'S REPORTS  
OF INDEPENDENT AUDITORS FOR THE PERIOD JULY 1, 2003 TO JUNE 30, 2004**

Plaintiff, Ann H. Womer Benjamin, Ohio Superintendent of Insurance, in her capacity as Liquidator of Credit General Indemnity Company ("CGID") and Credit General Insurance Company ("CGIC"), moves this Court for an order approving her Reports of Independent Auditors for the period July 1, 2003 to June 30, 2004, copies of which are attached to this Motion and marked as Exhibits A and B. The grounds in support of this Motion are set forth in the accompanying Memorandum.

Respectfully submitted,

JIM PETRO  
Attorney General State of Ohio

By Special Counsel:  
KEGLER, BROWN, HILL & RITTER, LPA

  
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Attorneys for Ann H. Womer Benjamin, in her  
capacity as Liquidator of Credit General Insurance  
and Credit General Indemnity Company.

FILED  
COMMON PLEAS COURT  
FRANKLIN CO. OHIO  
2005 MAY 31 PM 2:35  
CLERK OF COURTS

## MEMORANDUM IN SUPPORT OF MOTION

Pursuant to O.R.C. Section 3903.18(A), this Court's December 12, 2000 and January 5, 2001, orders to liquidate the business of CGID and CGIC, respectively, appointed Plaintiff, Superintendent of Insurance and successors in office as Liquidator, and directed the Liquidator to take possession of the assets of CGID and CGIC and to administer those assets under the general supervision of this Court. As provided in O.R.C. Section 3903.18(E), the 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 CGID and CGIC liquidation estates, for ultimate distribution to the liquidation estates' policyholders and creditors pursuant to O.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. 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.

By this Motion, the Liquidator seeks this Court's approval of the Annual Reports of Independent Auditors for the period July 1, 2003 to June 30, 2004 (the "Reports"), attached hereto as Exhibits A and B.

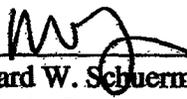
Ernst & Young has completed its audit of the statements of cash and invested assets of CGID and CGIC as of June 30, 2004 and the related statements of cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004. Ernst & Young issued the Reports containing its audit findings which opine that the Liquidator's financial statements present fairly, in all material respects, both the cash and invested assets of CGID and CGIC at June 30, 2004 and cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004.

In conclusion, the Liquidator hereby requests this Court's approval of her Report of Independent Auditors marked as Exhibits A and B, covering the period July 1, 2003 to June 30, 2004.

Respectfully submitted,

JIM PETRO  
Attorney General State of Ohio

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing Motion and Accompanying Memorandum was served via first class ordinary U.S. Mail, postage prepaid, this 31st day of May, 2005 upon all parties on the attached Service List:



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**EXHIBIT A**

Office of the Ohio Insurance Liquidator

Credit General Insurance Company, in Liquidation

Statements of Cash and Invested Assets and Cash Receipts and Cash Disbursements

*For the period July 1, 2003 to June 30, 2004 with Report of Independent Auditors*

 ERNST & YOUNG

**Office of the Ohio Insurance Liquidator**  
**Credit General Insurance Company, in Liquidation**

**Financial Statements**

For the period July 1, 2003 to June 30, 2004

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## Report of Independent Auditors

Mr. Douglas L. Hertlein  
Chief Deputy Liquidator  
Office of the Ohio Insurance Liquidator  
Credit General Insurance Company, in Liquidation

We have audited the accompanying statement of cash and invested assets of Credit General Insurance Company, in Liquidation (Estate) as of June 30, 2004, and the related statement of cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004. These financial statements are the responsibility of the Office of the Ohio Insurance Liquidator (Liquidation Office). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Liquidation Office, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the statement of cash and invested assets includes only the cash and invested assets of the Estate, and the statement of cash receipts and cash disbursements has been prepared on the cash-basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and invested assets of Credit General Insurance Company, in Liquidation at June 30, 2004, and its cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004, on the basis of accounting described in Note 1.

*Ernst & Young LLP*

September 20, 2004  
Columbus, OH

**Office of the Ohio Insurance Liquidator**  
**Credit General Insurance Company, in Liquidation**  
**Statement of Cash and Invested Assets**

	June 30	
	<u>2004</u>	<u>2003</u>
Cash	\$ 64,049	\$ 141,392
Invested assets (Note 2)	<u>16,413,942</u>	<u>18,816,261</u>
Total cash and invested assets	<u>\$ 16,477,991</u>	<u>\$ 18,957,653</u>

*See accompanying notes.*

Office of the Ohio Insurance Liquidator

Credit General Insurance Company, in Liquidation

Statement of Cash Receipts and Cash Disbursements

For the period July 1, 2003 to June 30, 2004

Cash at July 1, 2003	\$ 141,392
Cash receipts:	
Investment proceeds	12,766,479
Net interest and dividends	417,087
Premiums collected	1,350,284
Salvage and subrogation	278,705
Reinsurance recoveries	540,761
Reimbursement of paid losses	24,825
Proceeds from sale of assets	3,370
Proceeds from settlements	240,000
Proceeds from directors and officers	12,500
Recovery of preference payments	822,466
Recoveries under high deductible policies	115,541
Recovery of unearned commissions	448,865
Recovery from third party administrators	2,039,755
Recovery of LOC drawdowns	5,000
Other income	15,670
Total cash receipts	<u>19,081,308</u>
Cash disbursements:	
Investment purchases	10,403,455
Professional fees	6,785,612
Salaries, wages and employee benefits	1,171,594
General and administrative expenses	796,410
Ancillary replacement costs	1,580
Total cash disbursements	<u>19,158,651</u>
Cash at June 30, 2004	<u>\$ 64,049</u>

See accompanying notes.

**Office of the Ohio Insurance Liquidator**  
**Credit General Insurance Company, in Liquidation**  
**Notes to Financial Statements**

June 30, 2004

**1. Background and Basis of Presentation**

Pursuant to the Ohio Revised Code (Code), the Superintendent of the Ohio Department of Insurance is appointed as Liquidator of domestic insurance companies which have been determined by the Franklin County Court of Common Pleas, State of Ohio (Court), to be insolvent as specified in the Code.

The Liquidator marshals the assets of the insurance company and liquidates such assets and administers the business affairs of the company as approved by the Court. The Liquidator is empowered by the Code to employ employees and agents, actuaries, accountants, appraisers, consultants and such other personnel as considered necessary to assist in the liquidation.

Credit General Insurance Company (the Company) was placed in liquidation on January 4, 2001 by the Court and it became Credit General 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 statement of cash and invested assets includes 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 statement of cash and invested assets, and uncollected revenues and unpaid expenses are not included in the statement of cash receipts and cash disbursements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, and accordingly, the statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States.

**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 (see Note 3).

United States Government obligations, corporate obligations, municipal obligations, short-term investments, income notes, common stock and repurchase agreements are valued at cost, which approximates fair value.

**Office of the Ohio Insurance Liquidator**  
**Credit General Insurance Company, in Liquidation**  
**Notes to Financial Statements (continued)**

**2. Invested Assets (continued)**

At June 30, 2004, invested assets and their approximate values consisted of the following:

	<u>2004 Carrying Value</u>	<u>2003 Carrying Value</u>
United States Government obligation	\$ 10,394,862	\$ 150,014
Corporate obligation	745,973	743,663
Municipal obligation	509,310	542,718
Short-term investments	263,677	299,746
Income note	467,000	467,000
Common stock	120	120
Repurchase agreements	4,033,000	16,613,000
	<hr/>	<hr/>
Total invested assets	\$ 16,413,942	\$ 18,816,261

**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, 2004 and 2003 was \$8,310,081.

**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 Section 3903 et seq.

Office of the Ohio Insurance Liquidator

Credit General Indemnity Company, in Liquidation

Statements of Cash and Invested Assets and Cash Receipts and Cash Disbursements

*For the period July 1, 2003 to June 30, 2004 with Report of Independent Auditors*

 ERNST & YOUNG

**Office of the Ohio Insurance Liquidator**  
**Credit General Indemnity Company, in Liquidation**  
**Financial Statements**

For the period July 1, 2003 to June 30, 2004

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## Report of Independent Auditors

Mr. Douglas L. Hertlein  
Chief Deputy Liquidator  
Office of the Ohio Insurance Liquidator  
Credit General Indemnity Company, in Liquidation

We have audited the accompanying statement of cash and invested assets of Credit General Indemnity Company, in Liquidation (Estate) as of June 30, 2004, and the related statement of cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004. These financial statements are the responsibility of the Office of the Ohio Insurance Liquidator (Liquidation Office). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Liquidation Office, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the statement of cash and invested assets includes only the cash and invested assets of the Estate, and the statement of cash receipts and cash disbursements has been prepared on the cash-basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and invested assets of Credit General Indemnity Company, in Liquidation at June 30, 2004, and its cash receipts and cash disbursements for the period July 1, 2003 to June 30, 2004, on the basis of accounting described in Note 1.

*Ernst + Young LLP*

September 20, 2004  
Columbus, OH

**Office of the Ohio Insurance Liquidator**  
**Credit General Indemnity Company, in Liquidation**

**Statement of Cash and Invested Assets**

	June 30	
	<u>2004</u>	<u>2003</u>
Cash	\$ 95,961	\$ 138,051
Invested assets (Note 2)	<u>4,666,128</u>	<u>3,723,048</u>
Total cash and invested assets	<u>\$ 4,762,089</u>	<u>\$ 3,861,099</u>

*See accompanying notes.*

**Office of the Ohio Insurance Liquidator**  
**Credit General Indemnity Company, in Liquidation**  
**Statement of Cash Receipts and Cash Disbursements**  
**For the period July 1, 2003 to June 30, 2004**

Cash at July 1, 2004	\$ 138,051
<b>Cash receipts:</b>	
Investment proceeds	1,781,000
Net interest and dividends	139,830
Premiums collected	688,975
Total cash receipts	<u>2,609,805</u>
<b>Cash disbursements:</b>	
Investment purchases	2,476,059
Professional fees	57,186
Salaries, wages and employee benefits	96,875
General and administrative expenses	21,775
Total cash disbursements	<u>2,651,895</u>
Cash at June 30, 2004	<u>\$ 95,961</u>

*See accompanying notes.*