

IN THE COURT OF COMMON PLEAS, FRANKLIN COUNTY, OHIO

MARY TAYLOR,	:	
Ohio Superintendent of Insurance in her	:	
In Her Capacity as Rehabilitator of	:	
Home Value Insurance Company,	:	
	:	CASE NO. 12CV010970
Plaintiff,	:	
	:	Judge Daniel T. Hogan
vs.	:	
	:	
HOME VALUE INSURANCE COMPANY,	:	
	:	
Defendant.	:	

MOTION FOR THE APPROVAL OF REHABILITATOR’S FINAL REPORT OF INDEPENDENT AUDITORS FOR THE PERIOD ENDED DECEMBER 27, 2012

Plaintiff, Mary Taylor, Ohio Superintendent of Insurance in her capacity as Rehabilitator (“Rehabilitator”) of Home Value Insurance Company (“HVIC”), respectfully requests this Court’s approval of the Final Report of Independent Auditors for the period ended to December 27, 2012, as set forth in the attached Exhibit A, which is incorporated by reference.

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

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MEMORANDUM IN SUPPORT

On December 27, 2012, this Court granted the Rehabilitator's application for an Order approving the valuation and calculation of the Rehabilitator's Class 1 administrative expense claim (the final reserve for administrative expenses) and the shareholder Home Value Protection, Inc.'s Class 10 claim, and authorizing the final distribution of the assets of Home Value Insurance Company ("HVIC"). The December 27, 2012 Order also granted the Rehabilitator's application for a final closing Order terminating the rehabilitation of HVIC, discharging the Rehabilitator and making other provisions to close the HVIC rehabilitation estate and terminate the HVIC rehabilitation case (the "Final Closing Order").

Paragraph 6 of the Final Closing Order authorized the Rehabilitator or her designee to retain limited authority for, among other things, the purpose of filing a Final Independent Audit Report with the Court. This Motion requests approval of that Final Independent Audit Report for the period ended December 27, 2012. The Independent Audit Report is attached as Exhibit A and incorporated by reference.

Pursuant to the Agreed Order Appointing Rehabilitator (the "Rehabilitation Order") entered in this case on August 31, 2012, Home Value Insurance Company was ordered into rehabilitation pursuant to R.C. Chapter 3903. The Rehabilitation Order appointed the Ohio Superintendent of Insurance as HVIC's Rehabilitator and empowered, authorized and directed the Rehabilitator to take immediate possession and control of all of HVIC's assets and property in accordance with the laws of Ohio and under the continuing jurisdiction of this Court. As part of the rehabilitation and pursuant to the Rehabilitation Order and R.C. Chapter 3903, the Rehabilitator undertook the collection of all debts and moneys due to HVIC, and made payment of HVIC's necessary expenses in rehabilitation.

In the process of collecting debts and moneys due HVIC, the Rehabilitator received and deposited cash and purchased and sold various investment securities. In order to record this activity, the Rehabilitator built an internal accounting system capable of tracking costs and recoveries and generating basic financial reports. As required by R.C. 3903.13(B) and the Rehabilitation Order, the Rehabilitator filed an accounting of this activity with the Court in the form of a statement of receipts and disbursements covering the pendency of HVIC's rehabilitation proceedings, which was August 31, 2012 until its close December 27, 2012. This Court approved the Rehabilitator's First and Final Periodic Accounting in this case on February 7, 2013.

Since 1991, the Ohio Superintendent of Insurance in her capacity as Liquidator or Rehabilitator of Ohio domiciled insurance companies in receivership has hired an independent auditing firm to perform an annual audit of the cash receipts and disbursements and the purchase and sale of investment securities of the receivership in order to ensure the integrity of the receivership accounting system. In this rehabilitation, the Rehabilitator engaged Maloney + Novotny LLC to perform the audit. The Rehabilitator 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 Rehabilitator's intention to file the report with this Court to demonstrate the integrity of the Periodic Accounting.

Maloney + Novotny LLC completed its final audit of the statement of cash and invested assets of HVIC for the period ended December 27, 2012, and the related statements of cash receipts and cash disbursements for the period of August 31, 2012 through December 27, 2012 (the "Report"). Maloney + Novotny LLC issued the Report containing its audit findings, which opines that the Rehabilitator's financial statements present fairly, in all material respects, both

the cash and invested assets of HVIC at December 27, 2012, and cash receipts and cash disbursements for the period of August 31, 2012 through December 27, 2012.

For the reasons outlined above, the Rehabilitator respectfully requests the Court to approve the Final Report of Independent Auditors at December 27, 2012, as set forth in the attached Exhibit A.

Respectfully submitted,

MIKE DEWINE
Attorney General State of Ohio

/s/ W. Scott Myers
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CERTIFICATE OF NOTICE

I hereby certify that a true and accurate copy of the foregoing Motion for Approval of the Rehabilitator's Final Report of Independent Auditors for the Period Ended December 27, 2012 was posted on the Rehabilitator's website (www.ohliq.com) substantially contemporaneous with the filing of this Motion.

/s/ W. Scott Myers
W.SCOTT MYERS (0040686)

**OFFICE OF THE OHIO
INSURANCE LIQUIDATOR
HOME VALUE INSURANCE COMPANY,
IN REHABILITATION**

FINANCIAL REPORT

DECEMBER 27, 2012

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
HOME VALUE INSURANCE COMPANY,
IN REHABILITATION

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Independent Auditors' Report

Lynda G. Loomis
Chief Deputy Rehabilitator
Office of the Ohio Insurance Liquidator
Home Value Insurance Company, in Rehabilitation

We have audited the accompanying financial statements of Home Value Insurance Company, in Rehabilitation ("Estate"), which comprise the statement of cash and invested assets arising from cash transactions of Home Value Insurance Company, in Rehabilitation as of December 27, 2012, and the related statement of cash receipts and cash disbursements for the period August 31, 2012 through December 27, 2012, 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 audit. 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 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 Home Value Insurance Company, in Rehabilitation as of December 27, 2012, and the related statement of cash receipts and cash disbursements for the period August 31, 2012 through December 27, 2012 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 on 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
September 4, 2013

HOME VALUE INSURANCE COMPANY,
IN REHABILITATION

STATEMENT OF CASH AND INVESTED ASSETS

December 27, 2012

Cash	\$ -
Invested assets	- <hr/>
	\$ - <hr/> <hr/>

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

HOME VALUE INSURANCE COMPANY,
IN REHABILITATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

For the Period August 31, 2012 to December 27, 2012

CASH AT AUGUST 31, 2012	\$ 37,141
CASH RECEIPTS	
Net investment proceeds from money market funds	1,562,965
Interest and dividend income	5,988
Return of statutory deposits	1,037,140
Premium received	5,398
Recovery of agents unearned commission	358
Recovery of funds held	7,144
Total cash receipts	<u>2,618,993</u>
CASH DISBURSEMENTS	
Salaries, wages and employee benefits	59,452
Professional fees	38,352
Final distribution - Class 1 claimants - administrative expenses	15,870
Final distribution - Class 5 claimants - policyholders and general creditors	672,951
Final distribution - Class 5 claimants - unclaimed funds	500
Final distribution - Class 6 claimants - state/local government taxes, licenses and fees	3,106
Final distribution - Class 10 claimants - shareholder	1,843,145
General and administrative expenses	22,758
Total cash disbursements	<u>2,656,134</u>
CASH AT DECEMBER 27, 2012	<u><u>\$ -</u></u>

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

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
HOME VALUE INSURANCE COMPANY,
IN REHABILITATION

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 in such condition that the further transaction of business would be hazardous financially to its policyholders, creditors or the public, the Superintendent files a Complaint in the Franklin County, Ohio Common Pleas Court ("Rehabilitation Court") for a court order placing the company into rehabilitation. If the Court agrees with the Complaint, the Court enters a rehabilitation order and appoints the Superintendent of Insurance in the separate fiduciary capacity of Rehabilitator ("receiver") of the company, empowered to act on behalf of the policyholders and creditors of the company, and to develop and implement a rehabilitation plan for the company for court approval.

Home Value Insurance Company ("Company") was ordered into court-supervised rehabilitation on August 31, 2012 by the Court and it became Home Value Insurance Company, in Rehabilitation ("Estate").

As is common with entities placed in fiduciary control, the Rehabilitator 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. 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 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 rehabilitation, it had statutory deposits at various state insurance departments for the protection of policyholders within their jurisdiction. Since the Rehabilitator does not have direct control over those assets held by state insurance departments or related entities, it is uncertain whether all or a portion of such assets will be available to the Rehabilitator when implementing the rehabilitation plan. Thus, they are not considered invested assets by the Rehabilitator until complete and direct control over them is established. As of the rehabilitation date, August 31, 2012, the Home Value Insurance Company had a total of \$1,037,140 in special deposits. During the course of the Rehabilitation, the Ohio, Texas and Georgia statutory deposits in the amounts of \$513,829, \$498,309 and \$25,002, respectively, were released to the Rehabilitator.

OFFICE OF THE OHIO INSURANCE LIQUIDATOR
HOME VALUE INSURANCE COMPANY,
IN REHABILITATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Order to Dissolve the Home Value Insurance Estate

On December 27, 2012, the Court issued a Final Order Closing the Home Value Insurance Estate and terminating the rehabilitation case (the "Closing Order").

Assets remaining subsequent to December 27, 2012 were reserved (held-back) to pay administrative expenses related to the closure of the Home Value Insurance Estate. The Closing Order approved the Rehabilitator's pre-payment of \$18,169 of the Home Value Insurance Estate's unpaid administrative expenses related to the closure of the Home Value Insurance Estate to LMI Insurance Company, in Liquidation ("LMI") upon closure of the Home Value Insurance case in exchange for the LMI Estate's assumption, administration and payment of the remaining administrative expense obligations of the Home Value Insurance Estate. The payment and receipt of these funds were reported, respectively, in the Home Value Insurance 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 Home Value Insurance Company to be dissolved pursuant to Ohio Revised Code Section 3903.20, which occurred on December 27, 2012 and all assets had been distributed.

Note 4. Distributions

On November 16, 2012, the Liquidation Court ordered the Home Value Insurance Estate to make final distribution of assets to policyholders and Class 1, 5, 6 and 10 claimants. On November 19, 2012, the Home Value Insurance Estate disbursed \$15,870 to Class 1 claimants, \$672,951 to Class 5 claimants (\$220,121 of Class 5 were policyholders), \$500 of Class 5 distributions to unclaimed funds, \$3,106 to Class 6 claimants and \$1,843,145 to Class 10 claimants.

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 September 4, 2013, which is the date that the financial statements were available to be issued. No other material subsequent events were noted.