



## **Wisconsin Insurance Security Fund**

*Sent via e-mail to [nathan.houdek@wisconsin.gov](mailto:nathan.houdek@wisconsin.gov)*

April 28, 2023

Nathan Houdek, Commissioner  
Office of the Commissioner of Insurance  
State of Wisconsin  
P. O. Box 7873  
Madison, WI 53707-7873

### **Re: Wisconsin Insurance Security Fund 2022 Annual Financial Report Submission under INS 11.02 (3)**

Dear Commissioner Houdek:

The Wisconsin Insurance Security Fund (the Fund) Board of Directors retained the certified public accounting firm Strohm Ballweg LLP to conduct a financial audit of the Fund. At its April 18, 2023, meeting, the Fund Board received and reviewed the report with lead audit partner Gary Strohm. We now submit the approved 2022 audit report.

Attached to this letter is the complete audit document including the communication letter and financial statements. Here are highlights from this year's activities:

- Covered one new insolvency Time Insurance Company that triggered Fund coverage.
- Collected a \$10 million Class B assessment in the Disability Account to cover liabilities from the Penn Treaty insolvency.
- Prepared for the closing of eleven liquidation estates in which the Fund has liabilities.
- Completed a disaster recovery test of the Fund's computer system as well as a facilitated incident response exercise as part of Fund's ongoing security and business continuity planning.
- Continued to provide services to the Indiana Insurance Guaranty Association and the Oklahoma Property Casualty Insurance Guaranty Association under mutual assistance agreements.

Here is a summary of the Fund's activity and financial exposure by statutory account:

**Activity by Fund Account**

<b>Fund Account</b>	<b>Active Liquidations</b>	<b>Active Claims &amp; Continued Policies</b>	<b>Projected Future Losses</b>
<b>Property-Casualty (Other)</b>	21	195 claims	\$19,205,670
<b>Life</b>	2	1 claim 12 policies	\$35,544
<b>Annuity</b>	1	Assumption reconciliation obligations	\$74,300
<b>Disability (Health)</b>	3	36 claims 319 policies	\$14,526,891
<b>HMO</b>	0	0	\$0

The Fund is currently engaged in preliquidation planning for two insurers that are in rehabilitation.

This communication is the Fund's formal submission of the audit to your office as required under INS 11.02 (3) of the Wisconsin Administrative Code.

This report will be posted including the audited 2022 financial statement on the Fund's website. Notice of this posting was given to all insurer subject to assessment in all assessment notices since 2017. The Fund complies with the requirements of INS 11.02 (2) through these notifications and the posting of the report on its website.

We appreciate the generous support of your office and the staff in fulfilling the Fund's statutory mission. Please contact me if there are any questions about the contents of this report.

Sincerely,



Allan Patek  
Executive Director

Enclosures (2)



To the Board of Directors  
Wisconsin Insurance Security Fund  
Madison, Wisconsin

## WISCONSIN INSURANCE SECURITY FUND AUDIT COMMUNICATIONS LETTER

We have audited the financial statements of Wisconsin Insurance Security Fund (the Fund) as of and for the year ended December 31, 2022, and we have issued our report thereon dated February 20, 2023. Professional standards require that we advise you of certain matters related to our audit.

### 1. Our Responsibility in Relation to the Financial Statement Audit

- ▶ Form and express an opinion. As communicated in our engagement letter dated August 24, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with the modified cash basis of accounting. Our audit of the financial statements does not relieve you or management of your respective responsibilities.
- ▶ Properly plan and perform the audit. Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 Fund's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- ▶ Communicate significant matters to you. We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

WISCONSIN INSURANCE SECURITY FUND  
 AUDIT COMMUNICATIONS LETTER

<p>2. Audit Opinion</p>	<p style="text-align: center;"><b>The Opinion</b></p> <p>The Fund <i>received a “clean” unmodified opinion</i> on a modified cash basis of accounting.</p> <p style="text-align: center;"><b>Supplementary Information</b></p> <p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements, or to the financial statements themselves. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.</p>
<p>3. Other Items Issued by Strohm Ballweg</p>	<p>We issued the <i>following standard, required items</i> at the conclusion of our audit in addition to the audit opinion:</p> <ul style="list-style-type: none"> <li>▶ This letter, which includes the audit related communications our audit standards require, along with other highlights from the audit</li> <li>▶ An opinion on the supplementary information, as previously discussed</li> </ul>
<p>4. Misstatements</p>	<p>For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management and governance. Further, professional standards require us to communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.</p> <ul style="list-style-type: none"> <li>▶ There were <i>no corrected misstatements</i> and the audited financial statements match the filed Annual Statement.</li> <li>▶ There were <i>no uncorrected misstatements</i> that could, in our judgment, either individually or in the aggregate, have a significant effect on the Fund’s financial statements.</li> </ul>
<p>5. Audit Engagement Team</p>	<p>Gary Strohm is the engagement partner and is responsible for supervising the audit engagement and signing the audit opinion. This is Gary’s first year serving as the engagement partner with respect to the most recent partner rotation.</p>

WISCONSIN INSURANCE SECURITY FUND

AUDIT COMMUNICATIONS LETTER

<p>6. Difficulties and Disagreements</p>	<ul style="list-style-type: none"> <li>▶ We encountered <i>no significant difficulties</i> in dealing with management in performing and completing the audit.</li> <li>▶ There were <i>no significant disagreements</i> during the course of the audit. For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Fund's financial statements or the auditor's report.</li> </ul>
<p>7. Significant Accounting Policies</p>	<p>Management has the responsibility to select and use appropriate accounting policies.</p> <ul style="list-style-type: none"> <li>▶ A summary of the significant accounting policies adopted by the Fund is included in Note 2 to the financial statements.</li> <li>▶ There has been no initial selection of significant accounting policies or changes in accounting policies during 2022.</li> <li>▶ No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, or (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</li> <li>▶ All significant transactions have been recognized in the financial statements in the proper period.</li> </ul>
<p>Other Communications</p>	
<p>Planned Scope, Timing of the Audit, and Significant Risks</p>	<p>We conducted our audit consistent with the planned scope, timing, and significant risks previously communicated to you, which included discussions of:</p> <ul style="list-style-type: none"> <li>▶ Our audit engagement team and planned audit timing</li> <li>▶ Our audit focus and key areas, based on significant risks identified</li> <li>▶ The Board of Directors' views about the risks of fraud</li> <li>▶ Specific concerns or focus areas from the Board of Directors</li> <li>▶ Auditor independence</li> </ul>
<p>Compliance with all Ethics Requirements Regarding Independence</p>	<p>The engagement team; others in our firm, as appropriate; and our firm have complied with all relevant ethical requirements regarding independence.</p>

**WISCONSIN INSURANCE SECURITY FUND  
AUDIT COMMUNICATIONS LETTER**

<p>Other Audit Communications</p>	<ul style="list-style-type: none"> <li>▶ In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding these types of audit and accounting matters.</li> <li>▶ In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Fund, and business plans and strategies that may affect the risk of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund’s auditors.</li> </ul>
<p>Representations Requested from Management</p>	<p>We have requested certain representations from management, which are included in the attached management representation letter.</p>
<p>Other Items</p>	<p>It was noted during the audit that, although adequate detective controls are in place surrounding the check issuance process, there is an opportunity to strengthen preventative controls. Similar to prior years, we recommend that the Fund consider restricting the use of the check stamp to just the Executive Director of the Fund.</p> <p>We also noted that though the Fund implemented a more rigorous internal procedure surrounding the Executive Director’s wire transfer capabilities, the ability to process a wire transfer without the involvement of a secondary user is likely still present as the banks have no contractual obligation to adhere to the Fund’s internal procedure.</p> <p>In regard to the recommendations above, we believe these are best practices.</p>

We thank the staff of the Fund for the cooperation extended to us during the audit. This letter is intended solely for the information and use of management and the Board of Directors of the Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
February 20, 2023

WISCONSIN INSURANCE SECURITY FUND  
FINANCIAL STATEMENTS – MODIFIED CASH BASIS  
December 31, 2022 and 2021



WISCONSIN INSURANCE SECURITY FUND  
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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors  
Wisconsin Insurance Security Fund  
Madison, Wisconsin

### Opinion

We have audited the accompanying financial statements of Wisconsin Insurance Security Fund (the Fund), which are comprised of the statements of assets and fund balances – modified cash basis as of December 31, 2022 and 2021, and the related statements of revenue, expenses, and changes in fund balances – modified cash basis for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balances of the Fund as of December 31, 2022 and 2021, and its revenue, expenses, and changes in fund balances for the years then ended, in accordance with the modified cash basis of accounting as described in Note 2 to the financial statements.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
February 20, 2023

WISCONSIN INSURANCE SECURITY FUND  
STATEMENTS OF ASSETS AND FUND BALANCES – MODIFIED CASH BASIS  
December 31, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,087,291	\$ 2,934,353
Certificates of deposit	23,142,873	19,237,132
Bonds	11,949,239	6,510,173
Bond mutual fund	<u>993,939</u>	<u>993,939</u>
Total assets	37,173,342	29,675,597
Commitments and contingencies (see notes 11 through 18)	<u>-</u>	<u>-</u>
FUND BALANCES	<u>\$ 37,173,342</u>	<u>\$ 29,675,597</u>

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See Notes to the Financial Statements.

WISCONSIN INSURANCE SECURITY FUND  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES – MODIFIED CASH BASIS  
For the Years Ended December 31, 2022 and 2021

	Liquidations/Rehabilitations						Administration Account		Fund Total	
	Property and Casualty		Life and Annuity		Disability		2022	2021	2022	2021
	2022	2021	2022	2021	2022	2021				
<b>REVENUE</b>										
Assessments received	\$ -	\$ -	\$ -	\$ -	\$ 9,999,416	\$ -	\$ 350	\$ 472,150	\$ 9,999,766	\$ 472,150
Liquidation distributions	347,759	1,470,012	-	104,327	-	98,188	-	-	347,759	1,672,527
Interest	173,412	202,813	41,199	47,299	95,210	48,540	(183)	462	309,638	299,114
Premium income	-	-	275	-	504,275	553,382	-	-	504,550	553,382
Total revenue	<u>521,171</u>	<u>1,672,825</u>	<u>41,474</u>	<u>151,626</u>	<u>10,598,901</u>	<u>700,110</u>	<u>167</u>	<u>472,612</u>	<u>11,161,713</u>	<u>2,997,173</u>
<b>EXPENSES</b>										
Claims	835,082	1,818,669	21,280	11,111	1,389,690	1,257,624	-	-	2,246,052	3,087,404
Claim adjustment expenses	80,814	171,826	-	-	-	-	-	-	80,814	171,826
Other expenses	49,519	30,893	34,261	25,007	79,278	77,066	-	-	163,058	132,966
Administrative expenses	447,365	476,715	75,173	44,331	306,710	301,284	355,267	328,370	1,184,515	1,150,700
Total expenses	<u>1,412,780</u>	<u>2,498,103</u>	<u>130,714</u>	<u>80,449</u>	<u>1,775,678</u>	<u>1,635,974</u>	<u>355,267</u>	<u>328,370</u>	<u>3,674,439</u>	<u>4,542,896</u>
Changes in fund balances	(891,609)	(825,278)	(89,240)	71,177	8,823,223	(935,864)	(355,100)	144,242	7,487,274	(1,545,723)
Fund balance, beginning of year	20,741,015	21,566,293	4,523,320	4,452,143	4,241,966	5,161,771	169,296	25,054	29,675,597	31,205,261
Prior year adjustment	-	-	-	-	10,471	16,059	-	-	10,471	16,059
Fund balance, end of year	<u>\$ 19,849,406</u>	<u>\$ 20,741,015</u>	<u>\$ 4,434,080</u>	<u>\$ 4,523,320</u>	<u>\$ 13,075,660</u>	<u>\$ 4,241,966</u>	<u>\$ (185,804)</u>	<u>\$ 169,296</u>	<u>\$ 37,173,342</u>	<u>\$ 29,675,597</u>

See Notes to the Financial Statements.

Note 1 ~ Organization

The Wisconsin Insurance Security Fund (the Fund), a Wisconsin non-profit entity, was organized in 1969 pursuant to provisions of Wisconsin Statutes, Chapter 646, since amended. The Fund includes direct licensed insurers authorized to do business in Wisconsin with limited additions and exceptions. Also, as outlined in Chapter 646, certain lines of business written in Wisconsin are excluded from the Fund's coverage.

The main purposes of the Fund are:

- a. To maintain public confidence in the promises of insurers by providing a mechanism for protecting insureds from excessive delay and loss in the event of liquidation of insurers, and by assessing the cost of such protection among insurers; and
- b. To provide, where appropriate, for the continuation of protection under policies and supplemental contracts of life insurance, disability insurance, and annuities.

The Fund is administered by a Board of Directors (the Board) which consists of 14 members. The Attorney General, the State Treasurer, and the Commissioner of Insurance are members with full voting rights. Other members are chosen from representatives of insurers subject to Chapter 646 under procedures approved by the Commissioner of Insurance.

Chapter 646 creates six segregated accounts: one for life insurance; one for allocated annuities; one for disability insurance other than policies issued or covered by a health maintenance organization (HMO) insurer; one for HMO insurers; one for all other kinds of insurance subject to this chapter (namely, property and casualty); and an administration account.

The Fund operates with three full-time employees and two part-time employees. Consultants, third-party administrators, and temporary employees are utilized as necessary. Administrative expenses incurred in connection with actual liquidations are allocated to the appropriate account. Non-allocated expenses remain in the administration account.

Per Chapter 646, the Board of the Fund may make short-term asset transfers from one account to another.

The Fund is authorized to levy two different types of assessments. Administrative assessments are authorized by the Board on a prorated or non-prorated basis to meet administrative costs and other expenses whether or not related to the liquidation or rehabilitation of a particular insurer. The other type of assessment is a premium assessment where the Board periodically authorizes assessments of insurers within each account delineated in the statute for covered insurance policies to fund the cost of claims and continuation of coverage for policyholders as defined in the statutes.

Note 1 ~ Organization (Continued)

The Fund files a proof of claim in each liquidation estate for administration expenses and claim payments. If the liquidator determines that there are sufficient assets, a liquidation distribution may be made to the Fund. These distributions may be either in the form of early access distributions or final distributions when the liquidated estate is closed, or both. The fund also has premium income from policyholders and contract holders of insolvent member insurers, which is recognized when received.

Note 2 ~ Summary of Significant Accounting Policies

**Basis of Presentation.** The Fund prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when collected rather than when earned, and expenditures are recognized when paid rather than when incurred. Modifications to the cash basis of accounting include recording investment balances. Consequently, items such as assessments receivable from insurers, amounts due from large net worth insureds, amounts payable on life/annuity liquidation agreements, unpaid claims, unpaid claim adjustment expenses, and amounts due for services rendered are not included in the financial statements.

**Cash and Investments.** Cash and cash equivalents include variable interest rate accounts that can be withdrawn on demand and money market funds. The Fund has on deposit in a financial institution balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Fund does not believe it is exposed to any significant credit risk on the uninsured amounts. Investments consist of certificates of deposit, municipal bonds, U.S. Treasury notes, U.S. government agency notes, and a bond mutual fund, all of which are classified as held-to-maturity and are carried at cost.

Note 3 ~ Investments

The cost and fair value of bonds and the bond mutual fund at December 31, 2022 and 2021, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2022</u>				
U.S. Treasury	\$ 5,581,632	\$ 8,545	\$ (323,573)	\$ 5,266,604
U.S. government agency	4,575,969	-	(194,530)	4,381,439
Municipal	1,791,638	-	(38,604)	1,753,034
Bond mutual fund	993,939	-	(4,880)	989,059
	<u>\$ 12,943,178</u>	<u>\$ 8,545</u>	<u>\$ (561,587)</u>	<u>\$ 12,390,136</u>

WISCONSIN INSURANCE SECURITY FUND  
NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS  
December 31, 2022 and 2021

Note 3 ~ Investments (Continued)

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2021</u>				
U.S. Treasury	\$ 3,921,363	\$ 2,594	\$ (55,388)	\$ 3,868,569
U.S. government agency	1,530,862	-	(19,278)	1,511,584
Municipal	1,057,948	12,307	-	1,070,255
Bond mutual fund	993,939	1,060	-	994,999
	<u>\$ 7,504,112</u>	<u>\$ 15,961</u>	<u>\$ (74,666)</u>	<u>\$ 7,445,407</u>

The Fund uses a provider of market data and analytics to estimate the fair value of each bond.

The cost and fair value of bonds at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Cost</u>	<u>Fair Value</u>
Due within one year	\$ 2,601,124	\$ 2,525,332
Due after one year through five years	9,143,115	8,682,170
Due after five years through ten years	<u>205,000</u>	<u>193,575</u>
	<u>\$ 11,949,239</u>	<u>\$ 11,401,077</u>

**Allocation of Expenses.** A significant portion of the expenses paid in the administration account are incurred on behalf of liquidation estates. The Fund's personnel report time spent on specific liquidation matters, which forms the basis for the quarterly allocation of expenses from the administration account to each liquidation account. One additional expense that was allocated to each property and casualty liquidation starting in the fourth quarter of 2016 is the cost of the Claims Management and Financial Tracking System (CMFTS) (claims) system. The total cost of the CMFTS system, approximately \$320,000, was paid in 2015 and 2016, and was allocated evenly over 5 years. The CMFTS system was fully depreciated in the first quarter of 2021. An additional expense was allocated to each disability liquidation starting in the first quarter of 2019 relating to the installation costs of the FIMMAS (claims) system. The total cost of the FIMMAS system, approximately \$51,000, was paid in 2017 and 2018, and will be allocated evenly over 5 years.

**Allocation of Interest Income.** Interest income received is allocated to specific insolvencies based on the respective fund balances.

**Income Tax.** The Fund is a tax-exempt organization under the provisions of Section 501(c)(6) of the Internal Revenue Code. The Fund is also exempt from Wisconsin income taxation.

**Subsequent Events.** Subsequent events were evaluated through February 20, 2023, which is the date the financial statements were available to be issued.

Note 4 ~ Assessments – Property and Casualty

Approved assessments are calculated as a percentage of premiums written in Wisconsin by each insurer in the classes protected by the account for the year preceding the year in which the Board authorized the assessment. The original premium data is obtained from the Office of the Commissioner of Insurance (the OCI). The Fund has an annual capacity to collect assessments of approximately \$217,225,000 (unaudited) per the latest available data (2021).

Note 5 ~ Assessments – Life and Annuity

Approved assessments are calculated as a percentage of the average annual premiums written in Wisconsin by each insurer in the classes protected by the account for the 3 years preceding the year of the entry of the order of liquidation. The original premium data is obtained from a data survey prepared by the National Organization of Life and Health Guaranty Associations (NOLHGA) in cooperation with the National Association of Insurance Commissioners.

The Fund has an annual capacity to collect assessments of approximately \$61,009,000 (life, unaudited) and \$87,252,900 (annuity, unaudited) per the latest available data (2021).

Note 6 ~ Assessments – Disability/HMO

Approved assessments for the disability account are calculated as a percentage of premiums written in Wisconsin by each insurer in the classes protected by the account for the year preceding the year in which an assessment is authorized. The original premium data is obtained from a data survey prepared by NOLHGA. The Fund has an annual capacity to collect disability account assessments of approximately \$113,391,195 (unaudited) per the latest available data (2021).

The Fund has an annual capacity to collect assessments of approximately \$110,878,903 (unaudited) in the HMO account per the latest available data (2021). The original premium data is obtained from a data survey prepared by NOLHGA and a report from the OCI. HMOs are required to prepay 1 percent of this assessment capacity, and the OCI currently holds deposits exceeding 50 percent of assessment capacity. Assessments for the HMO account would be calculated based on the premium for the year preceding the authorization of assessment. The Fund has never levied or called an assessment in the HMO account.

Note 7 ~ Assessments – Administration

The statute allows the Fund to levy an administrative assessment of up to \$500 per year on all covered companies. There was no administrative assessment in 2022. The Fund collected a \$350 administrative assessment per member in 2021, which totaled \$472,150. The annual capacity to collect administrative assessments is approximately \$682,000 (unaudited, 2021).



Note 8 ~ Liquidation Distributions – Property and Casualty

During 2022 and 2021, the Fund received distributions or early access payments of \$347,759 and \$1,470,012, respectively, from property and casualty liquidations. The following is a breakdown of the amounts received in 2022:

Liquidation	Amount	Description
CastlePoint National	\$ 159,204	Early access
Freestone	120,156	Early access
Home	8,229	Early access
Insurance Corporation of New York	17,777	Early access
Lumbermens Mutual Group	5,723	Early access
Lumbermens Mutual Group	36,408	Administrative expenses
TX Great States	<u>262</u>	Administrative expenses
Total	<u>\$ 347,759</u>	

For distributions received prior to an estate closing, the liquidator retains the ability to require a return of funds from a guaranty fund (clawback) for reallocation in the final distribution of the estate.

Note 9 ~ Liquidation Distributions – Life and Annuity

During 2022 and 2021, the Fund received distributions of assets of \$0 and \$104,327, respectively, from life and annuity estates.

Note 10 ~ Liquidation Distributions – Disability

During 2022 and 2021, the Fund received distributions of assets of \$0 and \$98,188, respectively, from disability estates.

Note 11 ~ Other Recoveries

Chapter 646 of the Wisconsin Statutes limits the Fund’s obligations to named insureds with a large net worth. If the net worth of a named insured is greater than \$25,000,000, the Fund is not ultimately financially responsible for the claims unless the aggregate claims exceed 10 percent of the insured’s net worth. For the years ended December 31, 2022 and 2021, the Fund has received reimbursement from large net worth insureds totaling \$94,532 and \$84,131, respectively. The Fund also received reimbursement from Worker’s Compensation Reinsurance Association totaling \$19,706 and \$87,587 in 2022 and 2021, respectively. The Fund also receives reimbursement from the Workers Compensation Supplemental Benefit Fund (Supplemental Benefit Fund). In 2022, the Supplemental Benefit Fund made reimbursements for claim years 2010 – 2021 to the Fund totaling \$398,500. In 2021, the Supplemental Benefit Fund made reimbursements for claim years 2016 – 2019 to the Fund totaling \$378,883. These recoveries are netted against claims and claim adjustment expenses paid within the financial statements. The Fund has outstanding claims for supplemental benefits paid from 2021 to 2022.

Note 12 ~ Estimated Unpaid Claims and Claim Adjustment Expenses – Property and Casualty

As of December 31, 2022 and 2021, the Fund estimated the unpaid claims and claim adjustment expenses to be approximately \$19,205,670 (unaudited) and \$21,314,115 (unaudited), respectively. These amounts are estimates and the ultimate settlements will vary from the amounts indicated. These amounts will be offset by net worth insured recoveries, supplemental benefit reimbursements from the state of Wisconsin, future liquidation distributions received from receivers, and assessments received from insurers.

Liquidations with amounts included in this liability are Affirmative Insurance Company, American Country, American Mutual, Atlantic Mutual, Bedivere Insurance Company, Carriers, Casualty Reciprocal, Freestone, Fremont Indemnity, Gateway, Highlands, Home, Imperial Casualty, Insurance Corporation of New York, Iowa National, Lumbermans Underwriting Alliance, Lumbermans Mutual Group, Millers First Insurance Company, Northwestern National Insurance Company, Reliance, and Ullico Casualty.

Note 13 ~ Net Ultimate Liabilities – Life and Annuity

The Fund may receive revised liability estimates for insurers currently in liquidation. These liability amounts are subject to change due to fluctuating interest rates, asset valuations, experience of assumed blocks of business, and other variables.

Insolvencies with liabilities include only Executive Life, Lincoln Memorial Life, and Time Insurance Company. As of December 31, 2022 and 2021, estimates of the liability to the Fund were approximately \$109,850 (unaudited) and \$79,690 (unaudited), respectively. These amounts will be offset by future distributions received from receivers and assessments received from insurers. The Executive Life estate is in the process of closing.

Note 14 ~ Net Ultimate Liabilities – Disability

Insolvencies with liabilities include National States, Penn Treaty, and Time Insurance Company. The estimated current value of the liability for the disability insolvency account was approximately \$14,527,000 (unaudited) and \$12,700,000 (unaudited) as of December 31, 2022 and 2021, respectively. These amounts will be offset by future distributions received from receivers and assessments received from insurers.

Note 15 ~ Estate Closings

Numerous estates, including American Mutual, Casualty Reciprocal, Executive Life, Ideal Mutual, Imperial Casualty, Midland, National States, Northwestern National Insurance Company, Penn Treaty, Shelby, and Red Rock, are in the process of being closed. After these closings, the estates will make no future distributions, and the Fund will be liable for all remaining claim and expense payments. Carriers, Fremont Indemnity, ICM, Iowa National, Intercontinental, Legion, Reliance, and Villanova, previously closed estates, are not expected to make any future distributions to the Fund.

Note 16 ~ Retirement Plans

The Fund is a participating employer in the Pension Plan for Insurance Organizations (PPIO), which is a qualified non-contributory defined benefit pension plan covering substantially all employees of the Fund. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plan are generally determined on the basis of an employee’s length of employment and career average salary. The Fund closed pension plan participation to new employees hired after December 31, 2016. The plan is currently funded at a level that approximates the estimated benefits. The expenses related to this plan were \$9,504 and \$42,000 for the years ended December 31, 2022 and 2021, respectively. The PPIO plan was frozen in early 2020 with respect to benefits accrued to employees.

The Fund also has a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code that covers all employees who work at least a 1-month period. The Fund, at its discretion, matches employee contributions up to a maximum of 75 percent of the first 6 percent of compensation. The Fund also provided for a discretionary payment up to 7 percent of compensation for all employees since the pension plan was frozen in 2020. The expenses related to this plan were \$55,422 and \$52,440 for the years ended December 31, 2022 and 2021, respectively.

Note 17 ~ Litigation

The Fund is involved in legal proceedings, claims, and liquidations arising in the ordinary course of business. This includes pending or threatened litigation with respect to various loss claims under insurance policies issued by insurers in liquidation, and numerous pending claims against liquidators for reimbursement of claims paid and loss adjustment expenses paid. The resolution of these matters cannot be predicted at this time. Any liability that would arise out of litigation would be recovered by the Fund through assessments of the insurers for the respective liquidations.

Note 18 ~ Commitments

The Fund leases office space under a rental agreement that expires May 31, 2024. Future minimum payments on the noncancelable lease as of December 31, 2022, are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 34,718
2024	<u>14,466</u>
	<u>\$ 49,184</u>

Note 18 ~ Commitments (Continued)

The Fund is a member of the Insurance Guaranty Association Purchasing Group (IGAPG) CMFTS subgroup. The CMFTS allocates its expenses, which includes the contract with Insurity to host and support the ClaimsXpress software through an assessment. The Fund, as a member, is subject to an assessment. CMFTS expenses are assessed based on a formula that allocates certain expenses equally among the 11 member associations and other expenses proportionally based on a rolling 3-year average of assessable premium. The current Insurity contract extension for hosting and support of ClaimsXpress runs through April 30, 2025, with an additional 5-year extension option. The CMFTS expense allocations are dependent on the size of the total group budget, relative assessable premium among members, and overall membership size. The current projection for the Fund's share of the CMFTS activities, including ClaimsXpress hosting and support, are the following:

<u>Years Ending December 31,</u>	
2023	\$ 90,000
2024	85,000
2025	<u>95,000</u>
	<u>\$ 270,000</u>



INDEPENDENT AUDITOR'S REPORT ON THE  
SUPPLEMENTARY INFORMATION

To the Board of Directors  
Wisconsin Insurance Security Fund  
Madison, Wisconsin

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
February 20, 2023

WISCONSIN INSURANCE SECURITY FUND

REVENUE AND EXPENSES BY LIQUIDATION – PROPERTY AND CASUALTY LIQUIDATIONS/REHABILITATIONS – MODIFIED CASH BASIS

For the Year Ended December 31, 2022

Company (State-Year of Liquidation)	Assessments Received	Liquidation Distributions	Interest	Claims	Claim Adjustment Expenses	Other Expenses	Allocated Admin Expenses	Assessment Refunds	Transfers	Change in Fund Balance
Affirmative Ins Co (IL-2016)	\$ -	\$ -	\$ (1,116)	\$ (16,756)	\$ (24)	\$ -	\$ (8,289)	\$ -	\$ -	\$ (26,185)
American Country (IL-2020)	-	-	(6,826)	(108,036)	(2,952)	-	(23,367)	-	-	(141,181)
American Mutual (MA-1989)	-	-	36,767	(67,891)	(14,061)	-	(29,593)	-	-	(74,778)
Atlantic Mutual (NY-2011)	-	-	(18)	-	-	-	(2,530)	-	-	(2,548)
Bedivere Ins Co (PA-2021)	-	-	(1,423)	(4,768)	(5,703)	(4,330)	(67,638)	-	-	(83,862)
CastlePoint National (CA-2017)	-	159,204	(12,929)	-	(172)	-	(3,166)	-	-	142,937
Casualty Reciprocal (MO-2004)	-	-	59	30,301	(22,350)	-	(5,527)	-	-	2,483
Centennial Ins (NY-2011)	-	-	(22)	-	-	-	(2,013)	-	-	(2,035)
Freestone (DE-2014)	-	120,156	(12,008)	-	-	(89)	(7,737)	-	-	100,322
Fremont Indemnity (CA-2003)	-	-	41,396	(151,329)	(18,090)	-	(36,812)	-	-	(164,835)
Gateway (IL-2020)	-	-	(8,823)	(205,500)	(7,618)	(2,400)	(61,369)	-	-	(285,710)
Home (NH-2003)	-	8,229	8,382	(142,042)	(1,457)	-	(18,196)	-	-	(145,084)
Ideal Mutual (NY-1985)	-	-	57,598	12,992	-	-	(135)	-	-	70,455
Imperial Casualty (OK-2010)	-	-	(206)	(30,000)	(4,503)	(1,207)	(7,701)	-	-	(43,617)
Insurance Corp (NY-2010)	-	17,777	(39)	(6,635)	(152)	-	(4,340)	-	-	6,611
Iowa National (IA-1985)	-	-	7,641	13,286	-	-	(6,049)	-	-	14,878
Lumbermans Underwriting Alliance (LUA) (MO-2016)	-	-	(8,178)	(128,284)	(1,705)	-	(8,426)	-	-	(146,593)
Lumbermans (IL-2013)	-	42,131	(214)	(42,639)	(1,154)	-	(32,223)	-	-	(34,099)
Midland (NY-1986)	-	-	9,696	-	-	-	(4,917)	-	-	4,779
Millers First Ins Co (IL-2017)	-	-	(1,571)	544	(90)	-	(6,984)	-	-	(8,101)
Northwestern National Ins Co (WI-2019)	-	-	(1,010)	2,709	(450)	-	(11,070)	-	-	(9,821)
Reliance (PA-2001)	-	-	66,351	622	-	-	(3,555)	-	-	63,418
Ullico Casualty (DE-2013)	-	-	(95)	(5,898)	(217)	(1,400)	(7,085)	-	-	(14,695)
Composite	-	262	-	14,242	(116)	(40,093)	(88,643)	-	-	(114,348)
Totals	<u>\$ -</u>	<u>\$ 347,759</u>	<u>\$ 173,412</u>	<u>\$ (835,082)</u>	<u>\$ (80,814)</u>	<u>\$ (49,519)</u>	<u>\$ (447,365)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (891,609)</u>

WISCONSIN INSURANCE SECURITY FUND  
REVENUE AND EXPENSES BY LIQUIDATION – LIFE AND ANNUITY LIQUIDATIONS/REHABILITATIONS – MODIFIED CASH BASIS  
For the Year Ended December 31, 2022

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Company (State-Year of Liquidation)	Assessments Received	Liquidation Distributions	Interest	Premium Income	Claims	Claim Adjustment Expenses	Other Expenses	Allocated Admin Expenses	Assessment Refunds	Transfers	Change in Fund Balance
Executive Life (CA-1991)	\$ -	\$ -	\$ 13,325	\$ -	\$ (6,280)	\$ -	\$ (369)	\$ (338)	\$ -	\$ -	\$ 6,338
Lincoln Memorial Life (TX-2008)	-	-	(5,585)	-	(5,000)	-	(383)	(8,911)	-	-	(19,879)
London Pacific Life (NC-2004)	-	-	33,459	-	-	-	-	(1,709)	-	-	31,750
Time Insurance Company (WI-2022)	-	-	-	275	(10,000)	-	(25,919)	(45,598)	-	-	(81,242)
Composite	-	-	-	-	-	-	(7,590)	(18,617)	-	-	(26,207)
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,199</u>	<u>\$ 275</u>	<u>\$ (21,280)</u>	<u>\$ -</u>	<u>\$ (34,261)</u>	<u>\$ (75,173)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (89,240)</u>

WISCONSIN INSURANCE SECURITY FUND  
REVENUE AND EXPENSES BY LIQUIDATION – DISABILITY LIQUIDATIONS/REHABILITATIONS – MODIFIED CASH BASIS  
For the Year Ended December 31, 2022

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Company (State-Year of Liquidation)	Assessments Received	Liquidation Distributions	Interest	Premium Income	Claims	Claim Adjustment Expenses	Other Expenses	Allocated Admin Expenses	Assessment Refunds	Transfers	Change in Fund Balance
National States (MO-2010)	\$ -	\$ -	\$ 19,273	\$ 16,739	\$ (130,002)	\$ -	\$ -	\$ (23,643)	\$ -	\$ -	\$ (117,633)
Penn Treaty (PA-2017)	9,999,416	-	75,937	487,255	(1,259,688)	-	(5,323)	(193,716)	-	-	9,103,881
Time Insurance Company (WI-2022)	-	-	-	281	-	-	(54,519)	(58,627)	-	-	(112,865)
Composite	-	-	-	-	-	-	(19,436)	(30,724)	-	-	(50,160)
Totals	<u>\$ 9,999,416</u>	<u>\$ -</u>	<u>\$ 95,210</u>	<u>\$ 504,275</u>	<u>\$ (1,389,690)</u>	<u>\$ -</u>	<u>\$ (79,278)</u>	<u>\$ (306,710)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,823,223</u>





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## WISCONSIN INSURANCE SECURITY FUND

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February 20, 2023

Strohm Ballweg, LLP  
9701 Brader Way, Suite 301  
Middleton, Wisconsin 53562

We are providing this letter in connection with your audits of the statements of assets and fund balances – modified cash basis of Wisconsin Insurance Security Fund (the Fund) as of December 31, 2022 and 2021, and the related statements of revenue, expenses, and changes in fund balances – modified cash basis for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations of the Fund on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 20, 2023, the following representations made to you during your audits.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 24, 2022, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are presented in conformity with the modified cash basis of accounting as described in Note 2 of the financial statements.
3. We acknowledge our responsibility 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.

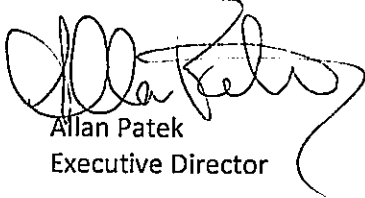
4. We have made available to you all information that is relevant to the preparation and fair presentation of the financial statements, including but not limited to the following:
  - a. Financial records and related data.
  - b. Minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. Unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
5. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Fund involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.
8. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators, or others.
10. The Fund has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
11. The Fund has the intent and ability to hold any depressed securities for a period of time sufficient to recover the cost basis.
12. The following have been properly recorded or disclosed in the financial statements:
  - a. All significant estimates known to management. Significant estimates are estimates at the balance sheet date which could change materially within the next year.
  - b. The estimated fair value of investments.
  - c. Pension plans attributable to employee services rendered through December 31, 2022.

- d. Estimated liabilities for future claim payments.
  - e. Information related to any estate closings.
  - f. Leases and material amounts of rental obligations.
  - g. Material amounts of contractual obligations for the purchase of real property, equipment, other assets, or intangibles.
13. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
14. There are no:
- a. Violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements.
  - b. Material agreements to repurchase assets previously sold.
  - c. Financial instruments with off-balance sheet market or credit risk.
  - d. Related-party transfers, leasing arrangements, or guarantees.
  - e. Derivative financial instruments.
  - f. Guarantees, whether written or oral, under which the Fund is contingently liable.
  - g. Security agreements in effect under the Uniform Commercial Code.
  - h. Uncertain tax positions.
  - i. Cybersecurity incidents that we have not previously disclosed to you.
  - j. Material concentrations, including concentrations of credit risk. Concentrations refer to volumes of business, revenues, or markets for which events could occur which would significantly disrupt finances within the next year.
15. The Fund is not subject to federal or state income tax.

16. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification 450.
17. We have complied with all state statutes concerning operations and financial statement reporting.
18. The Fund has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
19. We acknowledge our responsibility for presenting the supplementary information, which accompanies the financial statements, in accordance with the modified cash basis of accounting, and we believe the supplementary information, including its form and content, is fairly presented in accordance with the modified cash basis of accounting. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
20. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
21. We have not consulted with other accountants regarding auditing and accounting matters.
22. No events have occurred subsequent to December 31, 2022, and through the date of this letter that would require disclosure in the financial statements.
23. During the course of your audits you may have accumulated records that support audit documentation. Accordingly, copies of such records in your possession are no longer needed by us.
24. In regards to the non-attest service (assisting in the preparation of the audited financial statements) performed by you, we have:
  - a. Assumed all management responsibilities.
  - b. Designated an individual with suitable skill, knowledge, or experience to oversee the service.
  - c. Evaluated the adequacy and results of the service performed.
  - d. Accepted responsibility for the results of the service.

- e. Ensured that the Fund's data and records are complete and received sufficient information to oversee the service.

**WISCONSIN INSURANCE SECURITY FUND**



Allan Patek  
Executive Director



Theresa Wedekind  
Associate Director