



Wisconsin Insurance Security Fund

Sent via e-mail to nathan.houdek@wisconsin.gov

April 8, 2022

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

Re: Wisconsin Insurance Security Fund 2021 Audited 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 March 31, 2022, meeting, the Fund Board received, reviewed with lead audit partner Thomas Dawson, and accepted the 2021 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:

- There were two new insolvency Bedivere Insurance Company and Highlands Insurance Company that triggered Fund coverage.
- Nine liquidation estate that have Fund liabilities are in the process of closing the liquidation estate.
- The Fund working with other affected guaranty association and the Lincoln Memorial liquidator wrapped up litigation against parties involved in the loss of company assets with a final recovery in excess of \$100 million.
- The Fund completed improvements recommended in the triennial property casualty claims and Long-term care insurance administration audits.
- The Fund completed a system penetration test and triennial security maturity assessment as part of its security program.

Here is a summary of liquidation estate exposure:

Activity by Fund Account

Fund Account	Active Liquidations	Active Claims & Continued Policies	Project Future Losses
Property-Casualty (Other)	26	420 claims	\$21,314,115
Life	1	0 claims 7 policies	\$21,696
Annuity	1	0 claims (Assumption obligations)	\$57,994
Disability (Health)	2	36 claims 358 policies	\$12,700,000
HMO	0	0	\$0

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.

We will posted this report with the audited 2021 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 your active participation on the Fund Board. Without the ongoing support of your office and the staff, the Fund could not fulfill its statutory mission. Please contact me if you any questions on this report.

Sincerely,



Allan Patek
Executive Director

Enclosures (3)

WISCONSIN INSURANCE SECURITY FUND
FINANCIAL STATEMENTS – MODIFIED CASH BASIS
December 31, 2021 and 2020



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WISCONSIN INSURANCE SECURITY FUND
TABLE OF CONTENTS
December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statements of assets and fund balances – modified cash basis	3
Statements of revenue, expenses, and changes in fund balances – modified cash basis	4
Notes to financial statements – modified cash basis	5
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2021	13
Revenue and expenses by liquidation – modified cash basis:	
Property and casualty liquidations/rehabilitations	14
Life and annuity liquidations/rehabilitations	15
Disability liquidations/rehabilitations	16

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, 2021 and 2020, 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, 2021 and 2020, 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 7, 2022

WISCONSIN INSURANCE SECURITY FUND
STATEMENTS OF ASSETS AND FUND BALANCES – MODIFIED CASH BASIS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,934,353	\$ 4,684,710
Certificates of deposit	19,237,132	18,476,274
Bonds	6,510,173	7,050,337
Bond mutual fund	<u>993,939</u>	<u>993,939</u>
Total assets	29,675,597	31,205,260
Commitments and contingencies (see Notes 10 through 17)	<u>-</u>	<u>-</u>
FUND BALANCES	<u>\$ 29,675,597</u>	<u>\$ 31,205,260</u>

See Notes to Financial Statements.

WISCONSIN INSURANCE SECURITY FUND
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCES – MODIFIED CASH BASIS
For the Years Ended December 31, 2021 and 2020

	Liquidations/Rehabilitations						Administration Account		Fund Total	
	Property and Casualty		Life and Annuity		Disability		2021	2020	2021	2020
	2021	2020	2021	2020	2021	2020				
REVENUE										
Assessments received (rescinded) \$	-	-	-	-	-	-	472,150	-	472,150	-
Liquidation distributions	1,470,012	684,509	104,327	19,104	98,188	2,921	-	-	1,672,527	706,533
Interest	202,813	351,363	47,299	77,323	48,540	101,683	462	1,700	299,114	532,069
Premium income	-	-	-	-	553,382	665,920	-	-	553,382	665,920
Total revenue	<u>1,672,825</u>	<u>1,035,872</u>	<u>151,626</u>	<u>96,427</u>	<u>700,110</u>	<u>770,524</u>	<u>472,612</u>	<u>1,700</u>	<u>2,997,173</u>	<u>1,904,522</u>
EXPENSES										
Claims	1,818,669	797,793	11,111	(13,415)	1,257,624	1,444,498	-	-	3,087,404	2,228,876
Claim adjustment expenses	171,826	21,232	-	-	-	-	-	-	171,826	21,232
Other expenses	30,893	11,282	25,007	11,476	77,066	71,815	-	-	132,966	94,572
Administrative expenses	<u>476,715</u>	<u>491,068</u>	<u>44,331</u>	<u>48,912</u>	<u>301,284</u>	<u>334,144</u>	<u>328,370</u>	<u>216,726</u>	<u>1,150,700</u>	<u>1,090,850</u>
Total expenses	<u>2,498,103</u>	<u>1,321,375</u>	<u>80,449</u>	<u>46,973</u>	<u>1,635,974</u>	<u>1,850,457</u>	<u>328,370</u>	<u>216,726</u>	<u>4,542,896</u>	<u>3,435,530</u>
Changes in fund balances	(825,278)	(285,503)	71,177	49,454	(935,864)	(1,079,933)	144,242	(215,026)	(1,545,723)	(1,531,008)
Fund balance, beginning of year	21,566,293	21,851,796	4,452,143	4,402,689	5,161,771	6,232,596	25,054	240,080	31,205,261	32,727,160
Prior year adjustment	-	-	-	-	16,059	9,108	-	-	16,059	9,108
Fund balance, end of year	<u>\$ 20,741,015</u>	<u>\$ 21,566,293</u>	<u>\$ 4,523,320</u>	<u>\$ 4,452,143</u>	<u>\$ 4,241,966</u>	<u>\$ 5,161,771</u>	<u>\$ 169,296</u>	<u>\$ 25,054</u>	<u>\$ 29,675,597</u>	<u>\$ 31,205,260</u>

See Notes to 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 Fund 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 four full-time employees and one part-time employee. 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 nonprorated 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, except for certain expenditures for capital items. 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. government agency notes, and a bond mutual fund, all of which are classified as held-to-maturity and are carried at cost.

The cost and fair value of bonds and bond mutual funds at December 31, 2021 and 2020, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2021</u>				
Municipal	\$ 1,057,948	\$ 12,307	\$ -	\$ 1,070,255
U.S. government agency	5,452,225	2,594	(74,666)	5,380,153
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>
<u>2020</u>				
Municipal	\$ 1,720,544	\$ 32,330	\$ -	\$ 1,752,874
U.S. government agency	5,329,793	54,946	(163)	5,384,576
Bond mutual fund	993,939	4,031	-	997,970
	<u>\$ 8,044,276</u>	<u>\$ 91,307</u>	<u>\$ (163)</u>	<u>\$ 8,135,420</u>

Note 2 ~ Summary of Significant Accounting Policies (Continued)

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, 2021, 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:

	Cost	Fair Value
Due within one year	\$ 1,700,440	\$ 1,707,179
Due after one year through five years	4,735,363	4,670,998
Due after five years through ten years	74,370	72,231
	\$ 6,510,173	\$ 6,450,408

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 7, 2022, which is the date the financial statements were available to be issued.

Note 3 ~ 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 \$207,977,000 (unaudited) per the latest available data (2020).

Note 4 ~ 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 \$52,528,000 (life, unaudited) and \$101,116,000 (annuity, unaudited) per the latest available data (2020).

Note 5 ~ 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 assessments of approximately \$120,438,000 (unaudited) per the latest available data (2020).

The Fund has an annual capacity to collect assessments of approximately \$104,681,000 (unaudited) in the HMO account per the latest available data (2022). 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 6 ~ Assessments – Administration

The statute allows the Fund to levy an administrative assessment of up to \$500 per year on all covered companies. The Fund collected a \$350 administrative assessment per member in 2021, which totaled \$472,150. There was no administrative assessment in 2020. The annual capacity to collect administrative assessments is approximately \$679,000 (unaudited, 2020).

Note 7 ~ Liquidation Distributions – Property and Casualty

During 2021 and 2020, the Fund received distributions or early access payments of \$1,470,012 and \$684,509, respectively, from property and casualty liquidations. The following is a breakdown of the amounts received in 2021:

Liquidation	Amount	Description
Atlantic Mutual	\$ 1,517	Catch-up early access
Ins Corp of New York	16,132	Catch-up early access
Ins Corp of New York	7,330	Catch-up dividend distribution
Ideal Mutual	1,051,938	Dividend distribution
Lumbermens Mutual	85,278	Administrative expenses
Imperial Casualty	352,130	Early access
Affirmative	16,908	Administrative expenses/early access
Millers First	5,534	Early access
Lumbermens Mutual	77,834	Early access
Home	1,085	Defense expenses class 1
Commercial Comp	28,712	Early access
Shelby	<u>(174,386)</u>	Clawback
Total	<u>\$ 1,470,012</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 8 ~ Liquidation Distributions – Life and Annuity

During 2021 and 2020, the Fund received distributions of assets of \$104,327 and \$19,104, respectively, from life and annuity estates. The following is a breakdown of the amounts received in 2021:

Liquidation	Amount	Description
Lincoln Memorial	<u>\$ 104,327</u>	Litigation recoveries

Note 9 ~ Liquidation Distributions – Disability

During 2021 and 2020, the Fund received distributions of assets of \$98,188 and \$2,921, respectively, from disability estates. The following is a breakdown of the amounts received in 2021:

Liquidation	Amount	Description
National States	\$ 98,165	Final distribution
American Chambers	<u>23</u>	Settlement funds
Total	<u>\$ 98,188</u>	

Note 10 ~ 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 exceeds 10 percent of the insured's net worth. For the years ended December 31, 2021 and 2020, the Fund has received reimbursement from large net worth insureds totaling \$84,131 and \$83,027, respectively. The Fund also received reimbursement from Worker's Compensation Reinsurance Association totaling \$87,587 and \$18,876, respectively. The Fund also receives reimbursement from the Workers Compensation Supplemental Benefit Fund (Supplemental Benefit Fund). In 2021, the Supplemental Benefit Fund made reimbursements for claim years 2016-2019 to the Fund totaling \$378,883. In 2020, the Supplemental Benefit Fund made reimbursements for claim years 2017 and 2018 to the Fund totaling \$394,572. 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 2020 to 2021.

Note 11 ~ Estimated Unpaid Claims and Claim Adjustment Expenses – Property and Casualty

As of December 31, 2021 and 2020, the Fund estimated the unpaid claims and claim adjustment expenses to be approximately \$21,314,115 (unaudited) and \$22,209,742 (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, American Country, American Mutual, Atlantic Mutual, Bedivere, Carriers, Castlepoint National, Casualty Reciprocal, Centennial, Freestone, Fremont Indemnity, Gateway, Highlands, Home, Ideal Mutual, Imperial Casualty, Insurance Corporation of New York, Iowa National, Lumbermans Underwriting Alliance, Lumbermans Mutual Group, Millers First, Northwestern National, Reliance, Shelby, and Ullico Casualty.

Note 12 ~ 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 and Lincoln Memorial Life. As of December 31, 2021 and 2020, estimates of the liability to the Fund were approximately \$79,690 (unaudited) and \$90,285 (unaudited), respectively. These amounts will be offset by future distributions received from receivers and assessments received from insurers.

Note 13 ~ Net Ultimate Liabilities – Disability

Insolvencies with liabilities include National States and Penn Treaty. The estimated current value of the liability for the disability insolvency account was approximately \$12,700,000 (unaudited) and \$13,400,000 (unaudited) as of December 31, 2021 and 2020, respectively. These amounts will be offset by future distributions received from receivers and assessments received from insurers.

Note 14 ~ Estate Closings

Numerous estates, including American Mutual, Casualty Reciprocal, Ideal Mutual, Imperial, Midland, National States, Shelby, Reliance, 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, ICM, Iowa National, Intercontinental, Legion, and Villanova, previously closed estates, are not expected to make any future distributions to the Fund.

Note 15 ~ 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 \$42,000 and \$47,462 for the years ended December 31, 2021 and 2020, 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 12-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 \$52,440 and \$42,130 for the years ended December 31, 2021 and 2020, respectively.

Note 16 ~ 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 17 ~ 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, 2021, are as follows:

<u>Years Ending December 31,</u>	
2022	\$ 34,718
2023	34,718
2024	<u>14,466</u>
	<u>\$ 83,902</u>

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 the allocates certain expenses equally among the 10 member associations and others proportionally based on rolling 3 years 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, are the following:

<u>Years Ending December 31,</u>	
2022	\$ 84,175
2023	79,500
2024	79,500
2025	<u>84,000</u>
	<u>\$ 327,175</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 7, 2022

WISCONSIN INSURANCE SECURITY FUND

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

For the Year Ended December 31, 2021

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)	\$ -	\$ 16,908	\$ (1,542)	\$ (19,207)	\$ (124)	\$ -	\$ (9,005)	\$ -	\$ -	\$ (12,970)
American Country (IL-2020)	-	-	(2,643)	(630,000)	(14,166)	(5,365)	(28,309)	-	-	(680,483)
American Mutual (MA-1989)	-	-	44,488	(90,678)	(66,839)	-	(45,104)	-	-	(158,133)
Atlantic Mutual (NY-2011)	-	1,517	(3,250)	-	-	-	(3,038)	-	323,247	318,476
Bedivere Ins Co (PA)	-	-	(344)	(46,372)	(8,250)	(1,901)	(55,447)	-	-	(112,314)
Castlepoint National (CA-2017)	-	-	(15,178)	-	(515)	-	(8,030)	-	-	(23,723)
Casualty Reciprocal (MO-2004)	-	-	(5,912)	30,205	-	-	(7,101)	-	630,724	647,916
Centennial Ins (NY-2011)	-	-	(8,717)	3,575	-	-	(5,143)	-	963,046	952,761
Freestone (DE-2014)	-	-	(12,649)	(4,505)	(55)	-	(12,622)	-	286,954	257,123
Fremont Indemnity (CA-2003)	-	-	51,648	(200,636)	(20,324)	-	(28,378)	-	-	(197,690)
Gateway (IL-2020)	-	-	(3,434)	(779,615)	(40,456)	(21,781)	(94,313)	-	-	(939,599)
Home (NH-2003)	-	1,085	11,217	17,644	(9,124)	-	(28,873)	-	-	(8,051)
Ideal Mutual (NY-1985)	-	1,051,938	62,148	29,683	-	-	(7,998)	-	-	1,135,771
Imperial Casualty (OK-2010)	-	352,130	(4,596)	-	(5,461)	-	(8,166)	-	256,021	589,928
Insurance Corp (NY-2010)	-	23,458	(5,193)	(7,372)	(3,089)	-	(6,420)	-	576,643	578,027
Iowa National (IA-1985)	-	-	8,834	10,513	(450)	-	(5,283)	-	-	13,614
Lumbermans Underwriting Alliance (LUA)	-	-	(8,167)	(86,475)	(2,277)	-	(21,269)	-	-	(118,188)
Lumbermans (IL-2013)	-	163,112	(14,796)	(28,248)	-	(329)	(30,185)	-	1,574,839	1,664,393
Midland (NY-1986)	-	-	11,306	-	-	-	(165)	-	-	11,141
Millers First Ins Co (IL-2017)	-	5,534	(1,490)	(32,506)	(5,863)	-	(12,205)	-	-	(46,530)
Northwestern National Ins Co (WI-2019)	-	-	(1,197)	35,189	(451)	(329)	(16,600)	-	-	16,612
Reliance (PA-2001)	-	-	77,218	(297)	(3,413)	-	(6,663)	-	-	66,845
Ullico Casualty (DE-2013)	-	-	(7,128)	(10,516)	(76)	-	(10,073)	-	798,273	770,480
Composite	-	(145,670)	32,190	(9,051)	9,107	(1,188)	(26,325)	-	(5,409,747)	(5,550,684)
Totals	\$ -	\$ 1,470,012	\$ 202,813	\$ (1,818,669)	\$ (171,826)	\$ (30,893)	\$ (476,715)	\$ -	\$ -	\$ (825,278)

WISCONSIN INSURANCE SECURITY FUND
REVENUE AND EXPENSES BY LIQUIDATION – LIFE AND ANNUITY LIQUIDATIONS/REHABILITATIONS – MODIFIED CASH BASIS
For the Year Ended December 31, 2021

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)	\$ -	\$ -	\$ 15,563	\$ -	\$ (6,156)	\$ -	\$ (258)	\$ (1,268)	\$ -	\$ -	\$ 7,881
Lincoln Memorial Life (TX-2008)	-	104,327	(7,291)	-	(4,955)	-	(886)	(5,222)	-	-	85,973
London Pacific Life (NC-2004)	-	-	39,027	-	-	-	-	(11,704)	-	-	27,323
Composite	-	-	-	-	-	-	(23,863)	(26,137)	-	-	(50,000)
Totals	<u>\$ -</u>	<u>\$ 104,327</u>	<u>\$ 47,299</u>	<u>\$ -</u>	<u>\$ (11,111)</u>	<u>\$ -</u>	<u>\$ (25,007)</u>	<u>\$ (44,331)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,177</u>

WISCONSIN INSURANCE SECURITY FUND
REVENUE AND EXPENSES BY LIQUIDATION – DISABILITY LIQUIDATIONS/REHABILITATIONS – MODIFIED CASH BASIS
For the Year Ended December 31, 2021

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)	\$ -	\$ 98,165	\$ 3,971	\$ 15,677	\$ (90,309)	\$ -	\$ -	\$ (32,353)	\$ -	\$ 2,187,235	\$ 2,182,386
Penn Treaty (PA-2017)	-	-	27,566	537,705	(1,167,315)	-	(5,846)	(191,114)	-	-	(799,004)
Composite	-	23	17,003	-	-	-	(71,220)	(77,817)	-	(2,187,235)	(2,319,246)
Totals	<u>\$ -</u>	<u>\$ 98,188</u>	<u>\$ 48,540</u>	<u>\$ 553,382</u>	<u>\$ (1,257,624)</u>	<u>\$ -</u>	<u>\$ (77,066)</u>	<u>\$ (301,284)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (935,864)</u>



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, 2021, and we have issued our report thereon dated February 7, 2022. Professional standards require that we advise you of certain matters related to our audit.

<p>1. Our Responsibility in Relation to the Financial Statement Audit</p>	<ul style="list-style-type: none"> ▶ Form and express an opinion. As communicated in our engagement letter dated September 23, 2021, 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.
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WISCONSIN INSURANCE SECURITY FUND
 AUDIT COMMUNICATIONS LETTER

<p>2. Audit Opinion</p>	<p style="text-align: center;"></p> <p>The Fund <i>received a “clean” unqualified opinion</i> on a modified cash basis of accounting.</p> <p style="text-align: center;"></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"> ▶ This letter, which includes the audit related communications our audit standards require, along with other highlights from the audit ▶ An opinion on the supplementary information, as previously discussed
<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"> ▶ 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.
<p>5. Audit Engagement Team</p>	<p>Tom Dawson is the engagement partner and is responsible for supervising the audit engagement and signing the audit opinion. This is Tom’s fifth year serving as the engagement partner.</p>



**WISCONSIN INSURANCE SECURITY FUND
AUDIT COMMUNICATIONS LETTER**

<p>6. Difficulties and Disagreements</p>	<ul style="list-style-type: none"> ▶ We encountered <i>no significant difficulties</i> in dealing with management in performing and completing the audit. ▶ 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.
<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"> ▶ A summary of the significant accounting policies adopted by the Fund is included in Note 2 to the financial statements. ▶ There has been no initial selection of significant accounting policies or changes in accounting policies during 2021. ▶ 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. ▶ All significant transactions have been recognized in the financial statements in the proper period.
<p>Other Communications</p>	
<p>Planned Scope and Timing of the Audit</p>	<p>We conducted our audit consistent with the planned scope and timing previously communicated to you, which included discussions of:</p> <ul style="list-style-type: none"> ▶ Our audit engagement team and planned audit timing ▶ Our audit focus and key areas ▶ The Board of Directors' views about the risks of fraud ▶ Specific concerns or focus areas from the Board of Directors ▶ Auditor independence
<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"> ▶ 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. ▶ 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.
<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. We recommend that the Fund implements a review function over the positive pay upload process and restricts use of the check stamp to just the Executive Director of the Fund.</p> <p>We also noted that wire transfers could be transacted from bank accounts without a secondary bank user approving or confirming the transaction prior to the transfer. Due to the risk of fraud over the cash disbursement cycle, a secondary bank user should be required on all wire transfers. We recommend that such controls be implemented with all bank accounts to mitigate fraud risk over cash disbursements.</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 Wisconsin Insurance Security 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 7, 2022



February 7, 2022

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, 2021 and 2020, 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 7, 2022, 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 September 23, 2021, 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, 2021.
 - 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. Insurance linked securities.
 - k. Structured notes in which the amount of principal repayment is contingent on an underlying variable.
 - l. Existence of any side agreements or other arrangements (either written or oral) that have not been disclosed.
 - m. 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 a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and we believe the supplementary information, including its form and content, is fairly presented in accordance with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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, 2021, 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.

WISCONSIN INSURANCE SECURITY FUND

Allan Patek
Executive Director

Theresa Wedekind
Associate Director