



Financial Statements
and
Independent Auditors' Report

Office of the Special Deputy Receiver

December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors
Office of the Special Deputy Receiver,
Representing the Director of Insurance of the State of Illinois

Opinion

We have audited the financial statements of the Office of the Special Deputy Receiver, which comprise the statements of assets and liabilities - federal income tax basis as of December 31, 2022 and 2021, and the related statements of revenue and expenses - federal income tax basis and cash flows statements - federal income tax basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and liabilities of the Office of the Special Deputy Receiver as of December 31, 2022 and 2021, and its revenue and expenses for the year then ended in accordance with the basis of accounting the Office of the Special Deputy Receiver uses for federal income tax purposes described in Note A.

Basis for Opinion

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

Emphasis of Matter - Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Office of the Special Deputy Receiver uses for federal income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Office of the Special Deputy Receiver uses for federal income tax purposes, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 GAAS 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 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 GAAS, 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 Office of the Special Deputy Receiver'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 Office of the Special Deputy Receiver'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.

Kerber Eck + Braeckel LLP

Springfield, Illinois
September 1, 2023

Office of the Special Deputy Receiver
STATEMENTS OF ASSETS AND LIABILITIES - FEDERAL INCOME TAX BASIS
December 31

ASSETS	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 700,056	\$ 701,215
Due from Estates under the OSD supervision	390,536	347,128
Prepaid expenses	222,234	192,382
	<hr/>	<hr/>
Total assets	\$ 1,312,826	\$ 1,240,725
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LIABILITIES		
Accounts payable and accrued expenses	\$ 662,826	\$ 590,725
Due to Estates under the OSD supervision	650,000	650,000
	<hr/>	<hr/>
Total liabilities	\$ 1,312,826	\$ 1,240,725
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The accompanying notes are an integral part of these statements.

Office of the Special Deputy Receiver
STATEMENTS OF REVENUE AND EXPENSES - FEDERAL INCOME TAX BASIS
Years ended December 31

	<u>2022</u>	<u>2021</u>
Revenue		
Reimbursement of expenses incurred on behalf of Estates under the OSD supervision	\$ 9,741,013	\$ 9,889,731
Expenses incurred on behalf of Estates under the OSD supervision		
Salaries and wages	5,142,399	5,453,856
Professional fees	104,933	70,080
Payroll taxes and employee benefits	1,845,705	1,860,980
Rent	1,017,589	984,609
Office administration	1,344,940	1,267,195
Travel	11,450	18,948
Other	273,997	234,063
	<hr/>	<hr/>
Total expenses incurred on behalf of Estates under the OSD supervision	9,741,013	9,889,731
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Excess of revenue over expenses	\$ -	\$ -
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The accompanying notes are an integral part of these statements.

Office of the Special Deputy Receiver
STATEMENTS OF CASH FLOWS - FEDERAL INCOME TAX BASIS
Years ended December 31

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Excess of revenue over expenses	\$ -	\$ -
Adjustments to reconcile excess of revenue over expenses to net cash provided by (used in) operating activities		
Increase in due from Estates under the OSD supervision	(43,408)	(75,069)
Increase in prepaid expenses	(29,852)	(23,389)
Increase in accounts payable and accrued expenses	72,101	106,610
Net cash provided by (used in) operating activities	(1,159)	8,152
Cash and cash equivalents at beginning of year	701,215	693,063
Cash and cash equivalents at end of year	<u>\$ 700,056</u>	<u>\$ 701,215</u>

The accompanying notes are an integral part of these statements.

Office of the Special Deputy Receiver
NOTES TO FINANCIAL STATEMENTS - FEDERAL INCOME TAX BASIS
December 31, 2022 and 2021

NOTE A | ORGANIZATION AND BASIS OF PRESENTATION

Pursuant to the Illinois Insurance Code (the "Code"), the Director of Insurance of the State of Illinois ("Director" or "Receiver"), is appointed as Conservator, Rehabilitator, or Liquidator of domestic insurance companies which have been determined by state courts to be insolvent or to meet provisions or grounds for conservation, rehabilitation, or liquidation, as specified in the Code.

The Director, as Conservator, takes possession and control of the insurance company for the purpose of determining its financial condition. The Conservator maintains possession and control of the company until the court vacates the seizure order, either when the Director obtains a rehabilitation or liquidation order with respect to the insurance company or upon its release back to company management. As Rehabilitator, the Director conducts the business of the insurance company and implements a plan of rehabilitation, if feasible. As Liquidator, the Director marshals the assets of the insurance company and liquidates such assets, as appropriate, determines the liabilities, as approved by the supervising courts, and pays court approved pro rata distributions to policyholders and other creditors.

The Director is empowered by the Code to appoint a Special Deputy as the agent to supervise the conservation, rehabilitation, or liquidation of insurance companies. The Office of the Special Deputy Receiver ("OSD"), an Illinois-chartered not-for-profit corporation, supports the activity of the Special Deputy appointed by the Director, to manage the affairs of insurance companies placed in conservation, rehabilitation, or liquidation ("Estates"). The OSD commenced corporate operations on July 1, 1991.

Generally, for those Estates whose operations have been moved to OSD's home office, the OSD pays both direct expenses of the Estates and various overhead and administrative expenses from a common bank account. For those Estates whose operations have remained at their own home office, they pay their own expenses directly from their own bank account. The OSD allocates its overhead and administrative expenses to the Estates and receives reimbursement from Estate assets. All equipment, software and other capitalized costs are purchased and owned by the Estates, and as a result, are not reflected as assets or expenses of OSD.

The Statements of Revenue and Expenses - Federal Income Tax Basis ("statements") include only the overhead and administrative expenses of the OSD. The statements do not include the direct expenses of the Estates. These direct expenses are included in the Estates' own financial statements. In addition, Estates in conservation pay for their own expenses directly from their own assets.

The OSD's reimbursement of overhead and expenses from the Estates constitutes revenue. Revenue excludes deposits made directly into Estate bank accounts which are considered revenue of the individual Estate. These receipts are included in the Estates' own financial statements.

Office of the Special Deputy Receiver
NOTES TO FINANCIAL STATEMENTS - FEDERAL INCOME TAX BASIS
December 31, 2022 and 2021

NOTE A | ORGANIZATION AND BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the basis of accounting used for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Revenue and expenses of the OSD are recognized on this basis to the extent that they are includable or deductible for federal income tax purposes.

NOTE B | SUMMARY OF ACCOUNTING POLICIES

1. Cash and Cash Equivalents

The OSD considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Expense Allocation

The allocation of expenses paid or to be paid by the OSD on behalf of individual Estates is based on the percentage of the OSD staff hours charged to an individual Estate to total hours charged to all Estates. The OSD receives funds from the assets of Estates under its control to pay its operating expenses prior to allocation of its expenses to individual Estates. The advance of such monies is included in "Due to Estates under the OSD supervision" in the statements of assets and liabilities - federal income tax basis.

3. Compensated Absences

The OSD accrues for compensated absences based on absences paid during the two-and-one-half months immediately following December 31, as allowed for federal income tax purposes. If the statements were in accordance with GAAP, a liability for the estimated probable future payments would be accrued if the following conditions were met:

- The employee's right to receive compensation for the future absences is attributable to services already performed by the employee.
- The employee's right to receive the compensation for the future absences is vested, or accumulates.
- It is probable that the compensation will be paid.
- The amount of compensation is reasonably estimable.

Office of the Special Deputy Receiver
NOTES TO FINANCIAL STATEMENTS - FEDERAL INCOME TAX BASIS
December 31, 2022 and 2021

NOTE B | SUMMARY OF ACCOUNTING POLICIES

4. *Subsequent Events*

Management has evaluated subsequent events for recognition and disclosure in the financial statements through September 1, 2023, which is the date the financial statements were available to be issued. See Note H for disclosure of a subsequent event.

NOTE C | CONCENTRATION OF CREDIT RISK

The OSD maintains cash balances at a banking institution in the Chicago, Illinois area. Accounts are insured up to \$ 250,000 by the Federal Deposit Insurance Corporation. From time to time, account balances may exceed the insured limits. As of December 31, 2022, and through the date of this report, the OSD has not experienced any losses in such accounts.

NOTE D | LEASES

In addition to the equipment and furnishings of Estates utilized by the OSD in its operations, certain office space and equipment are leased under noncancelable leases. Future minimum lease payments for noncancelable leases for the three years ending December 31, 2025, are as follows:

2023	\$ 857,071
2024	874,077
2025	72,958

The OSD's noncancelable lease of office space in the Merchandise Mart Plaza in Chicago, Illinois, expires January 31, 2025.

NOTE E | RELATED-PARTY TRANSACTIONS

In its capacity supporting the Special Deputy and the Director as Conservator, Rehabilitator, or Liquidator of the Estates, the OSD has complete control over cash receipt and disbursement activity between the Estates and the OSD. Such transactions are generally conducted under the supervision of state courts having jurisdiction over the insurance company receivership proceedings and are made pursuant to the Code.

Office of the Special Deputy Receiver
NOTES TO FINANCIAL STATEMENTS - FEDERAL INCOME TAX BASIS
December 31, 2022 and 2021

NOTE F | EMPLOYEE BENEFIT PLAN

The OSD is the plan sponsor of a defined contribution retirement plan, the OSD Multiple Employer 401(k) Plan (the “Plan”), covering substantially all employees. The Plan requires the OSD to make a matching contribution on a payroll base equal to 50% of each participant’s contribution. Employees may contribute up to 100% of their salaries for any calendar year, subject to the maximum dollar amounts defined in Section 415(d) and 402(g) of the Internal Revenue Code. For the years ended December 31, 2022 and 2021, the OSD contributed \$ 321,684 and \$ 322,018, respectively, to the Plan.

NOTE G | INCOME TAXES

The OSD has recognized in the financial statements the effects of all tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law, and new authoritative rulings. The OSD is not aware of any circumstances or events that make it reasonably possible that unrecognized tax benefits may increase or decrease within 12 months of the statements of assets and liabilities - federal income tax basis date. Penalties and interest assessed by taxing authorities are included in the provision for income taxes, if applicable. There were no interest or penalties paid during 2022 or 2021.

NOTE H | LETTER-OF-CREDIT

As a condition of the OSD’s office lease agreement, the landlord requires a security deposit of \$ 250,000 in the form of an irrevocable letter-of-credit for the first six years of the lease. The letter-of-credit may be used by the landlord for the purpose of curing any default or defaults of the OSD under the lease. The irrevocable letter-of-credit, obtained from Bank of America, automatically renewed on October 1, 2021, and expired January 4, 2023. The letter-of-credit was not renewed due to the lease entering its seventh year. No funds were drawn on the letter-of-credit as of December 31, 2022 and through the date of expiration.