MICHIGAN TOWNSHIP PARTICIPATING PLAN

AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2017 and 2016

MICHIGAN TOWNSHIP PARTICIPATING PLAN

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UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Michigan Township Participating Plan

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan Township Participating Plan (a Michigan Public Act 138 entity), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Township Participating Plan as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
September 12, 2017

MICHIGAN TOWNSHIP PARTICIPATING PLAN
(a Michigan Public Act 138 Entity)
STATEMENTS OF FINANCIAL POSITION

	June 30, 2017	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash	**$ 203,132**	$ 198,917
Money market funds	**734,864**	676,041
Marketable securities	**245,000**	1,018,000
Sponsorship fee receivable	**23,185**	23,627
Other receivable	**34,846**	34,846
Deposit	**500**	-
Prepaid expenses	**10,000**	10,000
Total current assets	**1,251,527**	1,961,431
MARKETABLE SECURITIES	**1,492,907**	753,805
	$ 2,744,434	$ 2,715,236
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Premiums and accounts payable	**$ 7,291**	$ 11,204
Grants payable	**35,371**	70,631
Total current liabilities	**42,662**	81,835
NET ASSETS	**2,701,772**	2,633,401
	$ 2,744,434	$ 2,715,236

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF REVENUES, EXPENDITURES AND NET ASSETS

	Years ended June 30, 2017	2016
Sponsorship fee income	**$ 554,191**	$ 547,441
Operating expenses:		
Grant program, net of forfeitures	**165,298**	231,918
Advertising	**178,999**	110,082
Travel and meetings	**80,667**	97,831
Newsletter publishing's	**11,190**	14,643
Professional fees	**28,974**	38,409
Actuarial costs	**29,250**	29,000
Risk control	**7,000**	7,110
Insurance	**7,739**	7,653
Office supplies and expense	**1,628**	3,138
	510,745	539,784
Operating income	**43,446**	7,657
Other income (expense):		
Interest income	**24,925**	26,105
Insurance policy holder dividend income	**1,059,565**	1,502,929
Insurance policy holder dividend expense	**(1,059,565)**	(1,503,845)
Total other income	**24,925**	25,189
Excess of revenues	**68,371**	32,846
Net assets, beginning	**2,633,401**	2,600,555
Net assets, ending	**$ 2,701,772**	$ 2,633,401

See notes to financial statements.

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF CASH FLOWS

	Years ended June 30, 2017	2016
OPERATING ACTIVITIES		
Excess of revenues	**$ 68,371**	$ 32,846
Adjustments to reconcile the excess of revenues to net cash flows from operating activities		
Changes in:		
Fees receivable	**442**	1,330
Other receivable	**-**	(535)
Deposits	**(500)**	17,500
Premiums and accounts payable	**(3,912)**	4,284
Grants payable	**(35,260)**	(7,977)
Net cash provided by operating activities	**29,141**	47,448
INVESTING ACTIVITIES		
Net expenditures for money market funds	**(58,823)**	(470,505)
Expenditures for marketable securities	**(984,103)**	(295,600)
Proceeds from sale of marketable securities	**1,018,000**	740,000
Net cash used in investing activities	**(24,926)**	(26,105)
NET CHANGE IN CASH	**4,215**	21,343
CASH, Beginning	**198,917**	177,574
CASH, Ending	**$ 203,132**	$ 198,917

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to accounting principles generally accepted in the United States of America and the procedures provided by the Michigan Department of Treasury as required under Section 124.8(2) of the Michigan Compiled Laws and have been consistently applied in the preparation of the financial statements.

Plan Operations

The Michigan Township Participating Plan (the “Plan”) was established April 1, 1985, pursuant to laws of the State of Michigan which authorize local units of Government to exercise jointly any power, privilege or authority which each might exercise separately. The purpose of the Plan is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operations of its members; and to defend and protect any member of the authority against liability or loss. The powers, duties and the described activities of the Plan are not intended to constitute the issuance of a policy of insurance. The members intend, in the creation of the Plan, to establish an organization for joint risk management and have not created as between member and member any relationship for the debts of or claims against any member.

Effective July 1, 2011, the Plan entered into an agreement with U.S. Specialty Insurance Company (“USSIC”) to sponsor a master insurance policy for the members of the Plan. The Plan earns a sponsorship fee from USSIC which funds operating expenses as well as a risk reduction grant program.

The agreement with USSIC also provides for a program which entitles the Plan to receive insurance policy holder dividends if certain ultimate loss ratios are met during an underwriting year. Members of the Plan are the sole beneficiaries of any insurance policy holder dividend which would be allocated in accordance with criteria set forth by the Plan. The ultimate loss ratio cannot be calculated until 24 months after an underwriting year. USSIC has up to 90 days after the fiscal year to remit any dividend earned.

During the years ended June 30, 2017 and 2016, the Plan received insurance policy holder dividends totaling $1,059,565 and $1,502,929, respectively, of which $1,059,565 and $1,503,845, respectively, was distributed to the Members of the Plan. During the year ended June 30, 2015, there was a dividend underpayment of $916 which was a result of a Plan Member not meeting certain criteria set forth by the Plan, and therefore the plan member did not receive their portion of insurance policy holder dividend in 2015. As a result, this unpaid dividend was used toward the policy holder dividend payment during the year ended June 30, 2016, resulting in a $916 overpayment of dividend expense over dividend income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

As discussed above, effective July 1, 2011 the Plan earns a sponsorship fee of 2.6% of net written premiums to a maximum of $650,000 per year. During the years ended June 30, 2017 and 2016, net written premiums were $21,315,027 and $21,055,405, respectively.

Marketable Securities

The Plan classifies its marketable securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Plan has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale. At June 30, 2017 and 2016, all securities were classified as held-to-maturity.

Held-to-maturity securities are carried in the financial statements at amortized cost.

Concentration of Credit Risk

The Plan may, from time to time during the years covered by these financial statements, have bank balances in excess of FDIC insured limits. Management has deemed this as a normal business risk.

Income Taxes

The Plan is a municipal entity providing risk management and coverage operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and insurance coverage purposes.

A ruling has been received from the Internal Revenue Service stating that the Plan is a corporation in form but the activities are not subject to taxation, therefore no provision has been made for income taxes.

The Plan adopted Accounting Standards Codification (ASC) guidance regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. There were no uncertain tax positions at June 30, 2017 and 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred and totaled $178,999 and $110,082 for the years ended June 30, 2017 and 2016, respectively.

Subsequent Events

Plan management has performed a review of events subsequent to the statement of financial position date through September 12, 2017, the date the financial statements were available to be issued.

NOTE 2 – SELF-RETENTION AND INSURANCE

The Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to the transfer of risk to U.S. Specialty Insurance Company ("USSIC") backing the Michigan Township Participating Plan under a master policy for the period July 1, 2011 to July 1, 2019. Due to this Master Policy purchase, there is no pooling of risk between members. For policies with an effective date before July 1, 2011, the Plan transferred the risk to reinsurance companies backing the Plan. Further, the Plan has protected itself in the event a reinsurance company becomes uncollectible by purchasing a contingency policy for uncollectible reinsurers (see Note 3). However, the Plan holds $170,000 of self-retention on this policy. Additionally, the Plan maintains a self-insured Director and Officer Excess policy to cover up to $1 million in losses with an effective date of January 2, 2013 which is renewed annually.

Prior to July 1, 2011, the Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount. The individual members were responsible for their self-retention amount, which vary from member to member. These policies and coverage remain in effect until all claims have been settled. The Plan projects that this will take three to five years for all claims to be made and settled. The liability for these claims remains with the reinsurers.

NOTE 3 – CONTINGENCY COMMUTATION RECOVERY

As discussed in Note 2, prior to July 1, 2011 the Plan chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverage's 100%. The Plan had entered into an unrecoverable reinsurance agreement on June 30, 2003 with Motors Insurance Corporation to provide protection to the plan members in the event that the Plan had difficulties in the collection of claim recoverables from one or more of the reinsurers. The agreement allowed the Plan the option to increase the limit of protection through additional premium payments. Effective April 13, 2012, the Plan entered into a commutation agreement with Maiden Re Insurance Services, LLC, successor to Motors Insurance Corporation. As a result of the commutation agreement, premiums in the amount of $3,035,826 were returned to the Plan during the year ended June 30, 2013.

NOTE 3 – CONTINGENCY COMMUTATION RECOVERY (Continued)

In connection with the commutation agreement above, the Plan entered into an insurance contract with Houston Casualty Company ("HCC") to cover up to $5 million in losses to the Plan if a prior reinsurer is unable or unwilling to make some or all payments under its reinsurance agreements. Proceeds from the commutation of the unrecoverable reinsurance agreement were used for payment of the $512,500 premium to HCC during the year ended June 30, 2013. The premium was planned to be expensed over the ten year policy period from April 13, 2012 to March 31, 2022. However, during the Michigan Department of Insurance and Financial Services examination of the Plan for the year ended June 30, 2015, they noted that the Plan had a prepaid asset (prepaid insurance) of an amount in excess of 10% of net assets. Accounting and Reporting Requirements for Group Self-Insured Pools and MCL 124.8 state that pools cannot show a prepaid expense as an asset that is 10% or greater of net assets. As of June 30, 2015, this prepaid asset exceeded 10% of net assets, and, therefore, the Plan's board concluded that the remaining balance of the prepaid insurance would be expensed. The policy remains in force through March 31, 2022.

NOTE 4 – MARKETABLE SECURITIES

Marketable securities have been classified according to management's intent. The amortized cost of securities and their approximate fair values, by security type, as of June 30, 2017 and 2016, are as follows:

Amortized cost of securities and approximate fair values as of June 30, 2017:

	Amortized Cost	Unrealized	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 988,088	$ (12,308)	$ 975,780
Government bonds	749,819	(12,808)	737,011
	$ 1,737,907	$ (25,116)	$ 1,712,791

Amortized cost of securities and approximate fair values as of June 30, 2016:

	Amortized Cost	Unrealized	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 927,021	$ (598)	$ 926,423
Government bonds	844,784	(4,834)	839,950
	$ 1,771,805	$ (5,432)	$ 1,766,373

NOTE 4 – MARKETABLE SECURITIES (Continued)

The securities are classified as short-term or long-term on the statement of financial position according to their maturity dates. As of June 30, 2017, $245,000 and $1,492,907 of marketable securities are short-term and long-term, respectively. As of June 30, 2016, $1,018,000 and $753,805 of marketable securities are short-term and long-term, respectively. Certificates of deposit mature at various dates through November 2019. Government bonds mature at various dates through September 2020.

NOTE 5 – FAIR VALUE MEASUREMENTS

The Accounting Standards Codification regarding fair value enhances existing guidance for measuring assets and liabilities using fair value. The standard provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. The standard also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the standard, fair value measurements are disclosed by level within that hierarchy.

Determining which hierarchical level an asset or liability falls within requires significant judgment. The Plan's management evaluates its hierarchy disclosures. Hierarchical levels, as defined by the standard and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows.

> Level 1: Quoted prices in active markets for identical assets or liabilities.
>
> Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Because valuation methodologies require the use of subjective assumptions, changes in these assumptions can materially affect fair value. A description of the valuation methodologies used by the Plan for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Certificates of deposit: Valued at the quoted market price which is considered a Level 1 approach.

Government securities: Valued at the closing price reported in the active market on which the individual shares are traded which is considered a Level 2 measurement approach.

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Money market funds: Valued at the net asset value of shares held by the Plan at year end. Which is considered a Level 1 approach.

The following table summarizes financial instruments measured at fair value on a recurring basis as of June 30, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 975,780	$ -	$ -	$ 975,780
Government bonds	-	737,011	-	737,011
Total marketable securities	975,780	737,011	-	1,712,791
Money market funds	734,864	-	-	734,864
Total assets at fair value	$ 1,710,644	$ 737,011	$ -	$ 2,447,655

Assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 926,423	$ -	$ -	$ 926,423
Government bonds	-	839,950	-	839,950
Total marketable securities	926,423	839,950	-	1,766,373
Money market funds	676,041	-	-	676,041
Total assets at fair value	$ 1,602,464	$ 839,950	$ -	$ 2,442,414

NOTE 6 – GRANT PROGRAM

The Plan has established a risk reduction grant program to assist members in reducing specific risk exposures and other efforts of applying effective risk management and loss control techniques. Grants totaling $185,529 and $249,608 were awarded during the years ended June 30, 2017 and 2016, respectively. Grants totaling $20,231 and $17,690 were forfeited during the years ended June 30, 2017 and 2016, respectively. Grants of $35,371 and $70,631 were unpaid and are reflected as current liabilities on the statements of financial position as of June 30, 2017 and 2016, respectively.

NOTE 7 – PLAN TERMINATION

While the board is not presently considering Plan termination, the Plan may cease its activities upon a three-fourths vote of the members to such effect. The Plan shall be administered by the Board of Directors holding office on the effective date of the termination until all of the Plan's affairs are completed.

NOTE 8 – LOSS RESERVES

Effective July 1, 2011, the Plan retains no risk due to the agreement with USSIC (see Note 1 and 2) and therefore has no liability for loss reserves. For claims prior to July 1, 2011, the Plan has reinsured one hundred percent of its loss reserves and consequently has not reflected a liability for loss reserves on its statements of financial position.

NOTE 9 – SUBSEQUENT EVENT

On July 20, 2017, the Board of Directors approved $127,584 of risk reduction grants to 57 members. These grants will be paid primarily during the second quarter of the Plan’s fiscal year ending June 30, 2018.