MICHIGAN TOWNSHIP PARTICIPATING PLAN

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

June 30, 2019

MICHIGAN TOWNSHIP PARTICIPATING PLAN

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Michigan Township Participating Plan

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan Township Participating Plan (the "Plan"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the State of Michigan's Department of Insurance and Financial Services ("DIFS"), as described in Note 2. 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.

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 audits 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 the Plan as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with the financial reporting provisions of DIFS as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of DIFS, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of DIFS. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole that collectively comprise the Plan's basic financial statements. Management's discussion and analysis on pages 3–9, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This report is intended solely for the information and use of management, the Board of Directors, members, others within the Plan, and DIFS, and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Farmington Hills, Michigan
October 14, 2019

MICHIGAN TOWNSHIP PARTICIPATING PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Michigan Township Participating Plan's (the "Plan") financial report presents our discussion and analysis of the Plan's financial performance during the year ended June 30, 2019. Please read it in conjunction with the Plan's basic financial statements, which immediately follow this section.

THE REPORTING ENTITY

The Michigan Township Participating Plan was established April 1, 1985 under the legislation known as Public Act 138. It was formed to provide a stable insurance market for governmental entities who, up to then, were paying exorbitant prices for limited coverage, or in some cases, were being forced to go without coverage in key areas.

The Plan is a unique and proven, member-driven system that has effectively provided affordable, tailored property and casualty coverages to small and medium-sized Michigan public entities for many years. Members of the Plan all share common goals and needs specific for public entities. Through participation in the Plan, they create a team approach to meeting those goals and needs.

Our discussion and analysis of the Plan's financial performance provides an overview of its financial activities for the years ended June 30, 2019 and 2018. Please read it in conjunction with the Plan's basic financial statements, which begin on page 10.

FINANCIAL OVERVIEW

This financial report consists of two parts - management's discussion and analysis (this section) and the basic financial statements.

The three basic financial statements presented are as follows:

- **Statement of Financial Position** - This statement presents information reflecting the Plan's assets, liabilities, and net assets and is categorized into current and noncurrent assets and current liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity of which are collectible or becoming due within 12 months of year-end.

- **Statement of Revenue, Expenses and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of sponsorship fee revenue, with the major sources of operating expenses being grants, advertising, and travel and meetings. Nonoperating revenue consists primarily of investment income and certificate holder dividend income. Nonoperating expenses consists of certificate holder dividend expense.

FINANCIAL OVERVIEW (Continued)

- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities, investing activities and financing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

The Plan's accounting records are maintained on an accrual basis with the exception of the capitalization of material prepaid expenses, which is in accordance with the financial reporting provisions of the State of Michigan's Department of Insurance and Financial Services ("DIFS"). Financial data is presented for both the current and prior fiscal years. Financial data is also compared to an annual budget adopted by the board of directors.

ADDITIONAL INFORMATION – NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is integral to a full understanding of the financial information presented in the financial statements. The notes to the financial statements begin on page 13.

FINANCIAL HIGHLIGHTS

- Total assets of $2,814,735 exceeded liabilities of $61,354, resulting in net assets of $2,753,381, a 2.2% increase from the prior year.

- Membership levels remained fairly stable, with sponsorship fee revenues of $552,966 and $556,257 for the years ended June 30, 2019 and 2018, respectively; less than a 1% decrease year over year.

- The Plan reported a change in net position of $58,764 for the year ended June 30, 2019, compared to a change in net position of ($7,155) for the year ended June 30, 2018. This change was most significantly caused by a decrease in grant expense, net of forfeitures, of $130,778 during fiscal 2019 compared to fiscal 2018.

FINANCIAL HIGHLIGHTS (Continued)

Statements of Financial Position

	June 30,		
	2019	**2018**	**2017**
ASSETS			
CURRENT ASSETS			
Cash			
Huntington Bank	**$ 202,630**	$ 186,806	$ 203,132
Morgan Stanley	**317,436**	292,477	734,864
Total cash	**520,066**	479,283	937,996
Marketable securities - held-to-maturity, at amortized cost	**1,269,773**	684,000	245,000
Marketable securities - available-for-sale, at fair value	**248,056**	-	-
Sponsorship fees receivable	**23,626**	26,089	23,185
Other receivables	**38,282**	35,122	34,846
Deposits	**4,500**	1,000	500
Prepaid expenses	**10,000**	10,635	10,000
Total current assets	**2,114,303**	1,236,129	1,251,527
NONCURRENT ASSETS			
Marketable securities - held-to-maturity, at amortized cost	**700,432**	1,524,405	1,492,907
Total assets	**2,814,735**	2,760,534	2,744,434
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	**11,303**	355	-
Certificate holder dividends payable	**-**	5,332	7,291
Grants payable	**50,051**	60,230	35,371
Total liabilities	**61,354**	65,917	42,662
NET ASSETS	**$ 2,753,381**	$ 2,694,617	$ 2,701,772

FINANCIAL HIGHLIGHTS (Continued)

Statements of Revenue, Expenses and Changes in Net Assets

	Years ended June 30,		
	2019	**2018**	**2017**
Sponsorship fee revenue	**$ 552,966**	$ 556,257	$ 554,191
Operating expenses			
Grants, net of forfeitures	**109,844**	240,622	165,298
Advertising	**184,823**	183,089	178,999
Travel and meetings	**94,428**	75,364	80,667
Newsletter publishing	**16,392**	11,742	11,190
Professional fees	**77,744**	34,950	28,974
Actuarial costs	**30,250**	29,500	29,250
Program enhancement	**6,585**	6,940	7,000
Insurance	**7,807**	7,863	7,739
Office supplies and expense	**1,144**	1,452	1,628
Total operating expenses	**529,017**	591,522	510,745
Operating income (loss)	**23,949**	(35,265)	43,446
Other income (expense)			
Interest income	**34,815**	28,110	24,925
Certificate holder dividend income	**589,401**	582,353	1,059,565
Certificate policy holder dividend expense	**(589,401)**	(582,353)	(1,059,565)
Total other income, net	**34,815**	28,110	24,925
Change in net assets	**58,764**	(7,155)	68,371
Net assets, beginning	**2,694,617**	2,701,772	2,633,401
Net assets, ending	**$ 2,753,381**	$ 2,694,617	$ 2,701,772

FINANCIAL HIGHLIGHTS (Continued)

In addition to net assets, when assessing the overall health of the Plan, the reader needs to consider other nonfinancial factors such as the legal climate in the state of Michigan, the general state of the financial markets, and the level of risk prevention undertaken by the Plan and its members.

- The Plan's total assets have maintained relatively consistent, increasing 2.6% over the past three fiscal years from $2,744,434 to $2,814,735.

- Cash increased at June 30, 2019 compared to June 30, 2018. This is a result of the return on the investments in marketable securities and the decrease in grant expenses, partially offset by some slight increases in operating expenses.

- The investment portfolio consists of certificates of deposit, governmental bonds, and a mutual fund investment at June 30, 2019. The certificates of deposit mature at various dates through November 2019, and the government bonds mature at various dates through June 2022.

- The basic financial statements do not include prepaid expenses of $140,938 and $192,188 as of June 30, 2019 and 2018, respectively, as is in accordance with the financial reporting provisions of the DIFS.

- Total liabilities decreased 6.9% from June 30, 2018 to June 30, 2019, from $65,917 to $61,354.

Long-Term Debt

The Plan has no long-term debt and has no plans to enter into any debt arrangements in the foreseeable future.

Sponsorship Fees

During fiscal 2019, the Plan provided membership to 1,273 members. The Plan sponsors a master insurance policy for its members and earns a sponsorship fee of 2.6% of net premiums written, up to a maximum of $650,000 per year. Net written premiums for members during 2019 totaled $21,267,903. Plan coverage includes general liability, public officials liability, employee benefits liability, law enforcement liability, commercial auto, property, inland marine, equipment breakdown, and crime.

FINANCIAL HIGHLIGHTS (Continued)

Investment Income

The Plan's investment portfolio consists of certificates of deposit, governmental bonds, and a mutual fund investment at June 30, 2019. The portfolio generated interest income totaling $34,815 during fiscal 2019, a 23.8% increase compared to fiscal 2018, and a 39.7% increase compared to fiscal 2017.

Operating Expenses

The Plan has no employees. As such, the Plan contracts with a third party for most administrative services. In providing member services, the Plan incurs various operating expenses which are budgeted and monitored for compliance with budgetary limits, as established by the board of directors. Administrative expenses include actuarial; financial audit and legal; board meetings and travel; advertising; printing and office supplies; subscriptions and memberships; etc.

Included in operating expenses are grant expenses, net of forfeitures. Total grant expenses, net of forfeitures, was 20.8% of total operating expense, or $109,844 during fiscal 2019, a decrease of 54.3%, or $130,778, compared to fiscal 2018.

Total operating expenses of $529,017 for fiscal 2019 represents a 10.6% decrease compared to fiscal 2018, and a 3.6% increase compared to fiscal 2017. Costs associated with actuarial, financial audit and legal, board meetings and travel, advertising, and printing increased year over year. All other expenses decreased, the majority of which were for costs associated with grants, net of forfeitures.

Dividends to Members

Dividends to members amounted to $589,401, $582,353, and $1,059,565 in fiscal 2019, fiscal 2018, and fiscal 2017, respectively. The Plan is entitled to receive certificate holder dividends if certain ultimate loss ratios are met during an underwriting year. Members of the Plan are the sole beneficiaries of any certificate holder dividend which are allocated in accordance with criteria set forth by the Plan. The ultimate loss ratio cannot be calculated until 24 months after an underwriting year.

BUDGETARY HIGHLIGHTS

Each year the Plan adopts an annual operating budget for the current fiscal year. The budget is presented to the Plan's board of directors for final review and adoption. The board approves any interim amendments to the annual budget. The Plan administrator prepares the budget and reviews expenditures on a monthly basis to assure compliance with the adopted budget.

The following is an explanation of the significant variances of the budget to actual for fiscal 2019:

- Professional fees were approximately $28,000 over the approved budget. This was a result of additional legal fees related to the new master policy and cyber coverage that will become effective during fiscal 2020.

- Grants, net of forfeitures, were approximately $71,000 under the approved budget. This was a result of the decrease in participation of Plan members in the grant program.

ECONOMIC FACTORS

Governing Board Oversight

The mission of the Plan is to be long-term, stable, and cost effective for its members. The Plan is managed by a 9-member board of elected officials from nine different zones geographically located throughout the state of Michigan. The board meets quarterly to review the Plan's operations, as well as annually to focus on the objectives for the coming year.

CONTACTING THE PLAN'S MANAGEMENT

The financial report is designed to provide our members with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. For more information about the Michigan Township Participating Plan, visit our website at www.theparplan.com.

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
ASSETS		
CURRENT ASSETS		
Cash		
Huntington Bank	**$ 202,630**	$ 186,806
Morgan Stanley	**317,436**	292,477
Total cash	**520,066**	479,283
Marketable securities - held-to-maturity, at amortized cost	**1,269,773**	684,000
Marketable securities - available-for-sale, at fair value	**248,056**	-
Sponsorship fees receivable	**23,626**	26,089
Other receivables	**38,282**	35,122
Deposits	**4,500**	1,000
Prepaid expenses	**10,000**	10,635
Total current assets	**2,114,303**	1,236,129
NONCURRENT ASSETS		
Marketable securities - held-to-maturity, at amortized cost	**700,432**	1,524,405
Total assets	**2,814,735**	2,760,534
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**11,303**	355
Certificate holder dividends payable	**-**	5,332
Grants payable	**50,051**	60,230
Total liabilities	**61,354**	65,917
NET ASSETS	**$ 2,753,381**	$ 2,694,617

See notes to financial statements.

MICHIGAN TOWNSHIP PARTICIPATING PLAN

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30, 2019	Years ended June 30, 2018
Sponsorship fee revenue	**$ 552,966**	$ 556,257
Operating expenses		
Grants, net of forfeitures	**109,844**	240,622
Advertising	**184,823**	183,089
Travel and meetings	**94,428**	75,364
Newsletter publishing	**16,392**	11,742
Professional fees	**77,744**	34,950
Actuarial costs	**30,250**	29,500
Program enhancement	**6,585**	6,940
Insurance	**7,807**	7,863
Office supplies and expense	**1,144**	1,452
Total operating expenses	**529,017**	591,522
Operating income (loss)	**23,949**	(35,265)
Other income (expense)		
Interest income	**34,815**	28,110
Certificate holder dividend income	**589,401**	582,353
Certificate holder dividend expense	**(589,401)**	(582,353)
Total other income, net	**34,815**	28,110
Change in net assets	**58,764**	(7,155)
Net assets, beginning	**2,694,617**	2,701,772
Net assets, ending	**$ 2,753,381**	$ 2,694,617

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF CASH FLOWS

	Years ended June 30, 2019	2018
OPERATING ACTIVITIES		
Receipts from sponsorship fee revenue	**$ 555,429**	$ 553,353
Payments for grants, net of forfeitures	**(120,023)**	(215,763)
Payments for administrative expenses	**(411,090)**	(351,680)
Other payments, net	**(3,160)**	(276)
Net cash provided by (used in) operating activities	**21,156**	(14,366)
INVESTING ACTIVITIES		
Receipts from interest income	**34,815**	28,110
Purchase of marketable securities	**(693,856)**	(715,498)
Proceeds from maturity of marketable securities - held-to-maturity	**684,000**	245,000
Net cash provided by (used in) investing activities	**24,959**	(442,388)
FINANCING ACTIVITIES		
Receipts for certificate holder dividends	**589,401**	582,353
Payments for certificate holder dividends	**(594,733)**	(584,312)
Net cash used in financing activities	**(5,332)**	(1,959)
NET CHANGE IN CASH	**40,783**	(458,713)
CASH, Beginning	**479,283**	937,996
CASH, Ending	**$ 520,066**	$ 479,283
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	**$ 23,949**	$ (35,265)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Changes in:		
Sponsorship fees receivable	**2,463**	(2,904)
Other receivables	**(3,160)**	(276)
Deposits	**(3,500)**	(500)
Prepaid expenses	**635**	(635)
Accounts payable	**10,948**	355
Grants payable	**(10,179)**	24,859
Net cash provided by (used in) operating activities	**$ 21,156**	$ (14,366)

See notes to financial statements.

NOTE 1 – NATURE OF 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 any relationship for the debts of or claims between members.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan has prepared the financial statements on the basis of accounting for the purpose of complying with the financial reporting provisions of the State of Michigan's Department of Insurance and Financial Services ("DIFS"), which is a basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). These financial statements do not include prepaid expenses of $140,938 and $192,188 as of June 30, 2019 and 2018, respectively, as assets. GAAP requires all prepaid expenses to be recorded as assets, while the financial reporting provisions of DIFS do not allow capitalization of material prepaid expenses, as defined by DIFS.

Use of Estimates

The preparation of financial statements on the basis of accounting used for the purpose of complying with the financial reporting provisions of DIFS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses 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 premiums written, up to a maximum of $650,000 per year. The sponsorship fee income is recorded as revenue at the commencement of each policy. During the years ended June 30, 2019 and 2018, net written premiums were $21,267,903 and $21,394,501, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketable Securities

The Plan classifies its marketable debt securities as held-to-maturity as it has the positive intent and ability to hold the securities to maturity. Marketable securities classified as held-to-maturity are carried at amortized cost. The Plan classifies its other marketable securities as available-for-sale. Marketable securities classified as available-for-sale are carried in the financial statements at fair value, with realized gains and losses, determined using the first-in, first-out (FIFO) method, included in earnings.

Receivables

At June 30, 2019 and June 30, 2018, there was no allowance for uncollectible receivables.

Grants Payable

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. Grant cycles are open twice per fiscal year and grant project submissions require approval by the Plan's Board of Directors. Members must complete the approved grant project, then submit proof of project expenditures for reimbursement. Grants are limited up to $5,000 per member per grant cycle, in accordance with the grant program. Grants payable represent approved grants for which the Plan has not yet received member reimbursement requests. Grants must be completed within six months of the date of the grant agreement. If a member does not complete their grant project within the six month deadline, the grant is forfeited.

Certificate Holder Dividends

An agreement with USSIC provides for a program which entitles the Plan to receive certificate holder dividends if certain ultimate loss ratios are met during an underwriting year. Members of the Plan are the sole beneficiaries of any certificate 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.

The amount of certificate holder dividends to be paid to members is determined annually by USSIC, which utilizes actuarial data provided by Oliver Wyman, the Plan's actuary. Upon receipt of the certificate holder dividends from USSIC, the Plan declares and recognizes a liability for certificate holder dividends, and subsequently distributes such dividends to members of the Plan.

Should a member leave the Plan after the certificate holder dividends have been determined for the year but prior to being paid, their respective portion of the certificate holder dividend is forfeited. Forfeited certificate holder dividends are paid back to USSIC, or retained by the Plan to offset future certificate holder dividends to be received from USSIC.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Plan, from time to time during the years covered by these financial statements, may have bank balances in excess of insured limits. Management has deemed this to be 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. The Plan is exempt from taxation under the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. As of June 30, 2019 and 2018, there were no uncertain tax positions for which a reserve or liability is necessary.

Advertising

Advertising costs are expensed as incurred. Total advertising costs for the years ended June 30, 2019 and 2018, were $184,823 and $183,089, respectively.

Subsequent Events

Plan management has performed a review of events subsequent to June 30, 2019 through October 14, 2019, the date the financial statements were available to be issued.

NOTE 3 – 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 USSIC. The Plan now sponsors a master policy under which USSIC insures the members 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. Further, the Plan has protected itself in the event that amounts due from a reinsurance company become uncollectible by purchasing a contingency policy for uncollectible reinsurers (see Note 4). 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 varies from member to member. These policies and coverage remain in effect until all claims have been settled. The Plan projects that it will take seven to ten years for all claims to be made and settled. The liability for these claims remains with the reinsurers.

NOTE 4 – CONTINGENCY COMMUTATION RECOVERY

As discussed in Note 3, 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.

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 policy period is from April 13, 2012 to March 31, 2022.

NOTE 4 – CONTINGENCY COMMUTATION RECOVERY (Continued)

Section 124.8(2) of the Michigan Compiled Laws states that pools can only include a prepaid expense as an asset if it is an immaterial asset as defined by the Commissioner of the DFIS. As of June 30, 2015, this prepaid asset exceeded 10% of net assets, and, therefore, the Plan's board concluded that the balance of the prepaid insurance would be expensed. The policy remains in force through March 31, 2022.

NOTE 5 – MARKETABLE SECURITIES

Cost and fair value of marketable debt and mutual funds at June 30, 2019 and 2018, are as follows:

	June 30, 2019		
	Amortized Cost	Gross Unrealized Gains/ (Losses)	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 889,000	$ 3,946	$ 892,946
Government bonds	1,081,205	(12,765)	1,068,440
Total held-to-maturity	1,970,205	(8,819)	1,961,386
Available-for-sale:			
Mutual funds	248,056	-	248,056
	$ 2,218,261	$ (8,819)	$ 2,209,442

	June 30, 2018		
	Amortized Cost	Gross Unrealized Losses	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 976,000	$ (10,123)	$ 965,877
Government bonds	1,232,405	(36,004)	1,196,401
	$ 2,208,405	$ (46,127)	$ 2,162,278

The marketable securities are classified as short-term or long-term on the statement of financial position according to their maturity dates. As of June 30, 2019, $1,517,829 and $700,432 of marketable securities are classified as short-term and long-term, respectively. As of June 30, 2018, $684,000 and $1,524,405 of marketable securities are classified as short-term and long-term, respectively. Certificates of deposit mature at various dates through November 2019. Government bonds mature at various dates through June 2022.

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair value measurements are disclosed by level within a hierarchy, with the highest priority being quoted prices in active markets sets out a fair value 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. There were no changes in the valuation techniques in determining the fair value of assets and liabilities during the years ended June 30, 2019 and 2018.

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

Government securities: Valued using quoted prices for similar assets which is considered a Level 2 measurement approach.

Mutual funds: Valued at the quoted market price which is considered a Level 1 measurement approach.

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes financial instruments measured at fair value on a recurring basis segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Mutual funds	$ 248,056	$ -	$ -	$ 248,056

There were no financial instruments measured at fair value on a recurring basis as of June 30, 2018.

The Plan had no financial instruments measured at fair value on a non-recurring basis during the years ended June 30, 2019 and 2018.

The following tables summarize financial instruments that are not carried at fair value, but for which fair value is disclosed in the financial statements as of June 30, 2019 and 2018:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 892,946	$ -	$ -	$ 892,946
Government bonds	-	1,068,440	-	1,068,440
	$ 892,946	$ 1,068,440	$ -	$ 1,961,386

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 965,877	$ -	$ -	$ 965,877
Government bonds	-	1,196,401	-	1,196,401
	$ 965,877	$ 1,196,401	$ -	$ 2,162,278

NOTE 7 – 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 $126,820 and $249,530 were awarded during the years ended June 30, 2019 and 2018, respectively. Grants totaling $16,976 and $8,908 were forfeited during the years ended June 30, 2019 and 2018, respectively. Grants of $50,051 and $60,230 were unpaid and are reflected as current liabilities on the statements of financial position as of June 30, 2019 and 2018, respectively.

NOTE 8 – CERTIFICATE HOLDER DIVIDEND PROGRAM

An agreement with USSIC provides for a program which entitles the Plan to receive certificate holder dividends if certain ultimate loss ratios are met during an underwriting year. Members of the Plan are the sole beneficiaries of any certificate 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, 2019 and 2018, the Plan received certificate holder dividends totaling $589,401 and $582,353, respectively, all of which were distributed to the members of the Plan.

Should a member leave the Plan after the certificate holder dividends have been determined for the year but prior to being paid, their respective portion of the certificate holder dividend is forfeited. Forfeited certificate holder dividends are paid back to USSIC, or retained by the Plan to offset future certificate holder dividends to be received from USSIC. As of June 30, 2019 and 2018, forfeited certificate holder dividends payable totaled $-0- and $5,332, respectively.

NOTE 9 – 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. Upon termination, net assets of the Plan remaining after payment of debts and liabilities will be distributed to its members.

NOTE 10 – NET RESERVES FOR LOSSES

Effective July 1, 2011, the Plan retains no risk due to the agreement with USSIC (see Note 3) 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. Consequently, the Plan has not reflected a liability for loss reserves in its statements of financial position.

NOTE 11 – SUBSEQUENT EVENT

As discussed in Note 3, the Plan sponsors a master policy under which USSIC insures the members for the period July 1, 2011 through July 1, 2019. The Plan is in the process of finalizing the new master policy effective July 1, 2019. As of the date of this report, the Plan expects the Board of Directors to approve the new master policy at the upcoming October 2019 board meeting, with an effective date of July 1, 2019 through July 1, 2029.