MICHIGAN TOWNSHIP PARTICIPATING PLAN

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

June 30, 2021

MICHIGAN TOWNSHIP PARTICIPATING PLAN

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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, 2021 and 2020, 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, 2021 and 2020, 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 that 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 15, 2021

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2021. 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, 2021 and 2020. 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 consist of certificate holder dividend expense.

- **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 change in cash for the fiscal year.

FINANCIAL OVERVIEW (Continued)

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 $3,306,123 exceeded liabilities of $431,187, resulting in net assets of $2,874,936, an 8.2% increase from the prior year.

- Membership levels remained fairly stable, with sponsorship fee revenues of $556,361 and $553,973 for the years ended June 30, 2021 and 2020, respectively.

- The Plan reported an increase in net assets of $217,051 for the year ended June 30, 2021, compared to an increase in net assets of $140,504 for the year ended June 30, 2020. This change was most significantly caused by a decrease in grants, and travel and meetings expense of $81,574, net of an increase in commissions of $11,176, during fiscal 2021 compared to fiscal 2020. This was a result of fewer members taking advantage of the Plan's risk reduction program and fewer in-person board meetings, while commissions increased due to more cyber insurance policies ("Cyber Policies") written during fiscal 2021 compared to fiscal 2020.

FINANCIAL HIGHLIGHTS (Continued)

Statements of Financial Position

	June 30,		
	2021	**2020**	**2019**
ASSETS			
CURRENT ASSETS			
Cash	**$ 2,108,927**	$ 1,232,967	$ 520,066
Marketable securities			
Held-to-maturity, at amortized cost	**605,723**	359,409	1,269,773
Available-for-sale, at fair value	**412,327**	412,327	248,056
Accounts receivable			
Sponsorship fees	**24,223**	24,715	23,626
Member premiums	**34,773**	27,278	-
Other	**50,133**	41,830	38,282
Prepaid expenses and other assets			
Prepaid reinsurance premiums and commissions	**58,767**	34,803	-
Other prepaid expenses	**10,000**	15,513	10,000
Deposits	**1,250**	1,208	4,500
Total current assets	**3,306,123**	2,150,050	2,114,303
NONCURRENT ASSETS			
Marketable securities - held-to-maturity, at amortized cost	**-**	866,298	700,432
Total assets	**3,306,123**	3,016,348	2,814,735
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	**10,891**	6,940	11,303
Reinsurance premiums and commissions payable	**34,773**	27,278	-
Grants payable	**86,436**	54,442	50,051
Unearned sponsorship fee revenue	**240,319**	235,000	236,000
Unearned member premiums	**58,768**	34,803	-
Total liabilities	**431,187**	358,463	297,354
NET ASSETS	**$ 2,874,936**	$ 2,657,885	$ 2,517,381

FINANCIAL HIGHLIGHTS (Continued)

Statements of Revenue, Expenses and Changes in Net Assets

	Years ended June 30,		
	2021	**2020**	**2019**
Operating revenue			
Sponsorship fees	**$ 556,361**	$ 553,973	$ 553,966
Insurance premiums			
Member premiums	**91,420**	5,860	-
Less reinsurance premiums	**(79,474)**	(5,090)	-
Net insurance premium revenue	**11,946**	770	-
Other	**8,000**	4,000	-
Total operating revenue	**576,307**	558,743	553,966
Operating expenses			
Grants, net of forfeitures	**169,825**	233,681	109,844
Advertising	**33,390**	33,128	184,823
Travel and meetings	**48,962**	66,680	94,428
Newsletter publishing	**10,260**	15,426	16,392
Professional fees	**46,622**	61,301	77,744
Actuarial costs	**36,000**	30,750	30,250
Program enhancement	**2,770**	6,315	6,585
Insurance	**7,543**	7,416	7,807
Office supplies and expense	**11,478**	3,133	1,144
Commissions	**11,946**	770	-
Total operating expenses	**378,796**	458,600	529,017
Operating income	**197,511**	100,143	24,949
Other income (expense)			
Interest income	**19,540**	40,361	34,815
Certificate holder dividend income	**-**	2,087,370	589,401
Certificate policy holder dividend expense	**-**	(2,087,370)	(589,401)
Total other income, net	**19,540**	40,361	34,815
Change in net assets	**217,051**	140,504	59,764
Net assets, beginning	**2,657,885**	2,517,381	2,457,617
Net assets, ending	**$ 2,874,936**	$ 2,657,885	$ 2,517,381

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 a steady increase year over year, increasing 17.5% over the past three fiscal years from $2,814,735 to $3,306,123.

- Cash increased at June 30, 2021 compared to June 30, 2020. The increase is largely due to the Plan's strategic decision to move more of its capital invested in marketable securities into cash. Additionally, there was a decrease in grant, and meeting and travel expenses.

- The Plan's investment portfolio consists of certificates of deposit and a mutual fund investment at June 30, 2021. The certificates of deposit mature at various dates through February 2022.

- The basic financial statements do not include prepaid expenses of $38,438 and $89,688 as of June 30, 2021 and 2020, respectively, as is in accordance with the financial reporting provisions of the DIFS.

- Total liabilities increased 20.3% from June 30, 2020 to June 30, 2021, from $358,463 to $431,187, which relates to increases in reinsurance premiums and commissions payable, and unearned member premiums at June 30, 2021, which are related to more Cyber Policies being written during fiscal 2021 compared to fiscal 2020. The reinsurance premiums and commissions payable, and unearned member premiums are directly offset with member premiums receivable and prepaid reinsurance premiums and commissions at June 30, 2021. There was also an increase in grants payable at June 30, 2021 compared to June 30, 2020.

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 Fee and Member Premium Revenue

During fiscal 2021, the Plan provided membership to 1,258 members, compared to 1,263 members during fiscal 2020. 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 $700,000 per year. Net written premiums for members during fiscal 2021 totaled $21,603,088. 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)

Sponsorship Fee and Member Premium Revenue (Continued)

The Plan also sponsors a Cyber Policy for members of the Plan. The Plan has entered into a reinsurance agreement with Houston Casualty Company ("HCC") such that HCC reinsures 100% of each cyber insurance policy that the Plan has entered into with its members, up to $3,000,000 per policy.

Investment Income

The Plan's investment portfolio consists of certificates of deposit and a mutual fund investment at June 30, 2021. The portfolio generated interest income totaling $19,540 during fiscal 2021, a 51.6% decrease compared to fiscal 2020, and a 43.9% decrease compared to fiscal 2019. This is directly related to the Plan's strategic decision to move more of its capital invested in marketable securities into cash.

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, were 44.8% of total operating expense, or $169,825 during fiscal 2021, a decrease of 27.3%, or $63,856, compared to fiscal 2020.

Total operating expenses of $378,796 for fiscal 2021 represents a 17.4% decrease compared to fiscal 2020, and a 28.4% decrease compared to fiscal 2019. Costs associated with grants, travel and meetings, and professional fees represented the largest decreases in operating expense year over year. Operating expenses representing the largest year over year increase are related to office supplies and expense from the purchase of computers for the board of directors, and increases in commissions directly related to an increase in Cyber Policies written during the year.

Dividends to Members

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. Dividends to members amounted to $-0-, $2,087,370, and $589,401 in fiscal 2021, fiscal 2020, and fiscal 2019, respectively.

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 2021:

- Advertising, and travel and meetings related to the board of directors and various committees were approximately $150,000 under the approved budget. This was a result of COVID-19 related implications and government restrictions on large social gatherings and events.

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.

COVID-19

The COVID-19 pandemic continues to be an evolving situation. The extent of the impact of COVID-19 on the Plan and its financial results will depend on future developments, including the duration and spread of the outbreak and the related impact on the Plan's investments in marketable securities, all of which are highly uncertain.

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.

BASIC FINANCIAL STATEMENTS

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF FINANCIAL POSITION

	June 30, 2021	June 30, 2020
ASSETS		
CURRENT ASSETS		
Cash	**$ 2,108,927**	$ 1,232,967
Marketable securities		
Held-to-maturity, at amortized cost	**605,723**	359,409
Available-for-sale, at fair value	**412,327**	412,327
Accounts receivable		
Sponsorship fees	**24,223**	24,715
Member premiums	**34,773**	27,278
Other	**50,133**	41,830
Prepaid expenses and other assets		
Prepaid reinsurance premiums and commissions	**58,767**	34,803
Other prepaid expenses	**10,000**	15,513
Deposits	**1,250**	1,208
Total current assets	**3,306,123**	2,150,050
NONCURRENT ASSETS		
Marketable securities - held-to-maturity, at amortized cost	**-**	866,298
Total assets	**3,306,123**	3,016,348
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**10,891**	6,940
Reinsurance premiums and commissions payable	**34,773**	27,278
Grants payable	**86,436**	54,442
Unearned sponsorship fee revenue	**240,319**	235,000
Unearned member premiums	**58,768**	34,803
Total liabilities	**431,187**	358,463
NET ASSETS	**$ 2,874,936**	$ 2,657,885

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30, 2021	2020
Operating revenue		
Sponsorship fees	**$ 556,361**	$ 553,973
Insurance premiums		
Member premiums	**91,420**	5,860
Less reinsurance premiums	**(79,474)**	(5,090)
Net insurance premium revenue	**11,946**	770
Other	**8,000**	4,000
Total operating revenue	**576,307**	558,743
Operating expenses		
Grants, net of forfeitures	**169,825**	233,681
Advertising	**33,390**	33,128
Travel and meetings	**48,962**	66,680
Newsletter publishing	**10,260**	15,426
Professional fees	**46,622**	61,301
Actuarial costs	**36,000**	30,750
Program enhancement	**2,770**	6,315
Insurance	**7,543**	7,416
Office supplies and expense	**11,478**	3,133
Commissions	**11,946**	770
Total operating expenses	**378,796**	458,600
Operating income	**197,511**	100,143
Other income (expense)		
Interest income	**19,540**	40,361
Certificate holder dividend income	**-**	2,087,370
Certificate holder dividend expense	**-**	(2,087,370)
Total other income, net	**19,540**	40,361
Change in net assets	**217,051**	140,504
Net assets, beginning	**2,657,885**	2,517,381
Net assets, ending	**$ 2,874,936**	$ 2,657,885

MICHIGAN TOWNSHIP PARTICIPATING PLAN
STATEMENTS OF CASH FLOWS

	Years ended June 30, 2021	2020
OPERATING ACTIVITIES		
Receipts from sponsorship fees	**$ 562,172**	$ 551,884
Receipts from member premiums	**107,890**	13,385
Payments for grants, net of forfeitures	**(137,831)**	(229,290)
Payments for administrative expenses	**(201,702)**	(232,507)
Payments for reinsurance premiums	**(93,790)**	(11,611)
Other payments, net	**(303)**	452
Net cash provided by operating activities	**236,436**	92,313
INVESTING ACTIVITIES		
Receipts from interest income	**19,540**	40,361
Purchase of marketable securities	**-**	(2,440,651)
Proceeds from maturity of marketable securities - held-to-maturity	**619,984**	3,020,878
Net cash provided by investing activities	**639,524**	620,588
FINANCING ACTIVITIES		
Receipts for certificate holder dividends	**-**	2,087,370
Payments for certificate holder dividends	**-**	(2,087,370)
Net cash provided by financing activities	**-**	-
NET CHANGE IN CASH	**875,960**	712,901
CASH, Beginning	**1,232,967**	520,066
CASH, Ending	**$ 2,108,927**	$ 1,232,967
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating income	**$ 197,511**	$ 100,143
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in		
Sponsorship fees receivable	**492**	(1,089)
Member premiums receivable	**(7,495)**	(27,278)
Other receivables	**(8,303)**	(3,548)
Prepaid reinsurance premiums and commissions	**(23,964)**	(34,803)
Other prepaid expenses	**5,513**	(5,513)
Deposits	**(42)**	3,292
Accounts payable	**3,951**	(4,363)
Reinsurance premiums and commissions payable	**7,495**	27,278
Grants payable	**31,994**	4,391
Unearned member premiums	**23,965**	34,803
Unearned sponsorship fee revenue	**5,319**	(1,000)
Net cash provided by operating activities	**$ 236,436**	$ 92,313

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 ("Master Policy") for the members of the Plan. The Plan earns sponsorship fee revenue from USSIC, which funds operating expenses and a risk reduction grant program. Effective July 1, 2019, the master insurance policy agreement between the Plan and USSIC was extended through July 1, 2029.

Effective January 1, 2020, the Plan began to sponsor a cyber insurance policy ("Cyber Policy") for the members of the Plan. The Plan also entered into a reinsurance agreement with Houston Casualty Company ("HCC") such that HCC reinsures 100% of each cyber insurance policy that the Plan enters into with its members, as further discussed in Note 3.

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 $38,438 and $89,688 as June 30, 2021 and 2020, 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. In particular, the COVID-19 pandemic and the resulting impact to global economic conditions, as well as the Plan's operations, may affect future estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COVID-19

Towards the end of 2019 and during 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally, and the global and domestic responses to the COVID-19 outbreak continue to evolve. There were, and continue to be, mandates from federal, state and local authorities requiring forced closures and/or restrictions of non-essential businesses, which could impact the Plan's operations.

Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant or unusual circumstances caused by COVID-19 may have material effects on the Plan.

Sponsorship Fee and Member Premium Revenue

As discussed above, the Plan earns a sponsorship fee of 2.6% of net premiums written under the Master Policy, up to a maximum of $700,000 per year. The Plan receives sponsorship fee payments from USSIC at the commencement of each respective written policy. Each respective policy has a one-year term and is cancellable. Sponsorship fee revenue is recorded over each respective policy term. If an insured member cancels its policy, the Plan must refund the unearned 2.6% sponsorship fee to USSIC. During the years ended June 30, 2021 and 2020, net written premiums under the Master Policy were $21,603,088 and $21,268,200, respectively.

Under the Cyber Policy, the Plan receives member premium payments at the commencement of each respective written policy. Each policy has a one-year term and is cancellable. Member premium revenue is recorded over each respective policy term. If an insured member cancels its policy, the Plan must refund the unearned member premium.

Unearned sponsorship fee revenue and member premiums represent sponsorship fee revenue and member premiums received as of the respective balance sheet date for policies that remain effective into the next fiscal year.

Receivables

At June 30, 2021 and 2020, there was no allowance for uncollectible receivables.

Prepaid Reinsurance Premiums and Commissions

Prepaid reinsurance premiums and commissions represent amounts paid to the reinsurer for reinsurance premiums and commissions at inception of each respective member's cyber policy, less the premiums and commissions earned by the reinsurer in the current fiscal year for policies that remain effective into the next fiscal year.

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.

Reinsurance Premiums and Commissions Payable

Reinsurance premiums and commissions payable represent amounts due to the reinsurer for reinsurance premiums and commissions related to member cyber policies insured by the Plan.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificate Holder Dividends (Continued)

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.

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, 2021 and 2020, 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, 2021 and 2020, were $33,390 and $33,128, respectively.

Subsequent Events

Plan management has performed a review of events subsequent to June 30, 2021 through October 15, 2021, the date the financial statements were available to be issued. During this period, there were no subsequent events that were required to be disclosed in these financial statements.

NOTE 3 – SELF-RETENTION, INSURANCE, AND REINSURANCE

The Plan sponsors the Master Policy under which USSIC insures the members under a master policy for the period July 1, 2011 to July 1, 2029. Due to the Master Policy purchase, there is no pooling of risk between members as risk is transferred to USSIC. 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 up to ten years for all claims to be made and settled. The liability for these claims remains with the reinsurers.

Effective January 1, 2020, the Plan also sponsors the Cyber Policy. Under the Cyber Policy, the Plan insures member policy holders for certain cyber activity, as defined in each respective cyber insurance policy, on a claims made and reported basis, which is then reinsured by HCC for 100% of the liability incurred by the Plan, up to $3,000,000 per policy over the term of each respective cyber insurance policy. As of June 30, 2020, and the date of this report, no Cyber Policy claims have been made or reported by member policy holders that have required the Plan to pay, or accrue, for the claims made.

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 recoverable 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 4 – CONTINGENCY COMMUTATION RECOVERY (Continued)

In connection with the commutation agreement above, the Plan entered into an insurance contract with 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.

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 securities and mutual funds at June 30, 2021 and 2020, are as follows:

	June 30, 2021		
	Amortized Cost	Gross Unrealized (Losses)	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 605,723	$ (8,250)	$ 597,473
Available-for-sale:			
Mutual funds	412,327	-	412,327
	$ 1,018,050	$ (8,250)	$ 1,009,800

	June 30, 2020		
	Amortized Cost	Gross Unrealized Gains/(Losses)	Fair Value
Held-to-maturity:			
Certificates of deposit	$ 835,000	$ 20,857	$ 855,857
Government bonds	390,707	(12,177)	378,530
Total held-to-maturity	1,225,707	8,680	1,234,387
Available-for-sale:			
Mutual funds	412,327	-	412,327
	$ 1,638,034	$ 8,680	$ 1,646,714

NOTE 5 – MARKETABLE SECURITIES (Continued)

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, 2021, $1,018,050 of marketable securities are classified as short-term. There were no marketable securities classified as long-term as of June 30, 2021. As of June 30, 2020, $771,736 and $866,298 of marketable securities are classified as short-term and long-term, respectively. Certificates of deposit mature at various dates through February 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, 2021 and 2020.

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, 2021			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Mutual funds	$ 412,327	$ -	$ -	$ 412,327

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Mutual funds	$ 412,327	$ -	$ -	$ 412,327

The Plan had no financial instruments measured at fair value on a non-recurring basis during the years ended June 30, 2021 and 2020.

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, 2021 and 2020:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 597,473	$ -	$ -	$ 597,473

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Marketable securities:				
Certificates of deposit	$ 855,857	$ -	$ -	$ 855,857
Government bonds	-	378,530	-	378,530
	$ 855,857	$ 378,530	$ -	$ 1,234,387

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 $185,736 and $238,038 were awarded during the years ended June 30, 2021 and 2020, respectively. Grants totaling $15,911 and $4,357 were forfeited during the years ended June 30, 2021 and 2020, respectively. Grants of $86,436 and $54,442 were unpaid and are reflected as current liabilities on the statements of financial position as of June 30, 2021 and 2020, 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, 2021 and 2020, the Plan received certificate holder dividends totaling $-0- and $2,087,370, 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, 2021 and 2020, there were no forfeited certificate holder dividends due back to USSIC or retained to offset future certificate holder dividends.

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 related to member insurance policies written under the Master Policy due to the agreement with USSIC (see Note 3) and therefore has no liability for loss reserves related to the Master Policy. For claims prior to July 1, 2011, the Plan has reinsured one hundred percent of its loss reserves. Additionally, for Cyber Policy claims, the Plan has reinsured one hundred percent of its loss reserves, as discussed in Note 3, and as of June 30, 2021 and 2020, and through the date of this report, there were no Cyber Policy claims made that have required the Plan to pay, or accrue, for the claims made. Consequently, the Plan’s management has estimated that the Plan has no liability for loss reserves related to the Cyber Policy as of June 30, 2021 and 2020, respectively.