



michigan municipal league

LIABILITY & PROPERTY POOL

Financial Report

With Supplemental Information

December 31, 2021



Michigan Municipal League Liability and Property Pool

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Independent Auditor's Report

To the Board of Directors
Michigan Municipal League Liability
and Property Pool

Opinion

We have audited the financial statements of Michigan Municipal League Liability and Property Pool (the "Pool") as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Michigan Municipal League Liability and Property Pool as of December 31, 2021 and 2020 and the changes in its financial position and, where applicable, its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Michigan Municipal League Liability
and Property Pool

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Pool's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of claims information for all lines of coverage, and schedule of reconciliation of net reserves for losses and loss adjustment expenses by type of contract, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Morse, PLLC

April 20, 2022

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis

This section of Michigan Municipal League Liability and Property Pool's (the "Pool") annual financial report presents our discussion and analysis of the Pool's financial performance during the year ended December 31, 2021. Please read it in conjunction with the Pool's financial statements, which immediately follow this section.

The Reporting Entity

The Michigan Municipal League (MML) formed Michigan Municipal League Liability and Property Pool pursuant to the Michigan Intergovernmental Cooperation Act, P.A. 138 of 1982, as amended. The Pool became operational in December 1982. The mission of the Pool is to provide a long-term, stable, cost-effective risk management alternative to members and associate members of the MML. The Pool provides services intended to reduce the frequency and severity of losses occurring in the operation of local government functions. It also defends and indemnifies its members against legal liability or loss in accordance with the terms of its Intergovernmental Agreement and Coverage Document.

The Pool is comprised of municipalities and related agencies throughout the state of Michigan including cities, villages, townships, counties, public authorities, and special districts. As a condition of membership in the Pool, each public agency must be either a member or an associate member of the MML.

The legal basis of the Pool and its organization is set forth under the terms of a Pool Intergovernmental Contract which is entered into and signed by each Pool member. The Pool's board of directors must approve the admission of each Pool member.

Our discussion and analysis of the Pool's financial performance provides an overview of its financial activities for the years ended December 31, 2021 and 2020. Please read it in conjunction with the Pool's financial statements, which begin on page 17.

Financial Overview

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The three basic financial statements presented are as follows:

- **Statement of Net Position** - This statement presents information reflecting the Pool's assets, liabilities, and net position and is categorized into current and noncurrent assets and 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 the statement's date.
- **Statement of Revenue, Expenses, and Changes in Net Position** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the calendar year.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

The Pool's accounting records are maintained on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America. Financial data is presented for both the current and prior fiscal year. 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 20.

Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplemental information regarding the Pool's 10-year claims development history and a reconciliation of the Pool's net reserves for losses and loss adjustment expenses by type of contract. The determination of current member rates to cover the assumed risk of possible future loss occurrences is largely guided by claim development. Trends in claim development indicate whether losses are increasing, decreasing, or static. Required supplemental information begins on page 29.

Financial Highlights

- Total assets of \$105.1 million exceeded liabilities of \$38.8 million, resulting in the net position of \$66.3 million, a 12.6 percent increase in net position from the prior year.
- Membership levels remained stable during the year. The return of the \$1.6 million dividend to renewed members helped the Pool retain 99 percent of its members.
- Loss and loss adjustment expense reserves, including incurred but not reported claim reserves, decreased by 3.5 percent from the prior year. During 2021, ultimate loss and loss adjustment expense development, net of specific retentions, show a \$5.7 million overall decrease on prior years' results, driven by favorable development on liability claims, which was slightly offset by unfavorable development in property claims.
- The Pool reported a change in net position of \$7.4 million in 2021, compared to a change in net position of \$7.6 million in 2020.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Comparative Statement of Net Position

	December 31		
	2021	2020	2019
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,726,829	\$ 2,527,760	\$ 1,733,299
Investments at fair value	2,879,737	5,738,405	4,112,112
Premiums receivable	460,889	711,061	222,306
Reinsurance receivables on paid claims	463,353	263,230	279,249
Claim deductibles receivable	104,666	477,242	467,475
Prepaid lease - Current portion	20,000	20,000	20,000
Accrued interest receivable	296,622	269,755	268,589
Other current assets	284,565	277,037	733,133
Total current assets	8,236,661	10,284,490	7,836,163
Noncurrent assets:			
Investments at fair value	88,829,025	80,881,780	74,816,457
Investment in NLC Mutual Insurance Company	7,561,947	6,838,698	6,065,184
Prepaid lease - Net of current portion	488,334	508,334	528,334
Total noncurrent assets	96,879,306	88,228,812	81,409,975
Total assets	105,115,967	98,513,302	89,246,138
Liabilities			
Current liabilities:			
Accounts payable	1,027,723	562,011	95,503
Net reserve for losses and loss adjustment expenses	3,861,069	4,397,579	4,818,877
Net reserve for incurred but not reported losses and loss adjustment expenses	5,054,066	5,366,519	4,787,006
Unearned member premiums - Net	10,490,479	10,818,210	9,949,546
Dividends payable	31,378	-	23,728
Total current liabilities	20,464,715	21,144,319	19,674,660
Noncurrent liabilities:			
Net reserve for losses and loss adjustment expenses - Net of current portion	7,947,746	8,323,170	9,146,682
Net reserve for incurred but not reported losses and loss adjustment expenses - Net of current portion	10,403,450	10,157,055	9,086,189
Total noncurrent liabilities	18,351,196	18,480,225	18,232,871
Total liabilities	38,815,911	39,624,544	37,907,531
Net Position - Unrestricted	\$ 66,300,056	\$ 58,888,758	\$ 51,338,607

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Operating Results and Changes in the Pool's Net Position

	Year Ended December 31		
	2021	2020	2019
Operating Revenue			
Member premiums	\$ 24,358,787	\$ 23,690,404	\$ 22,354,621
Less reinsurance premiums expense	<u>(8,377,121)</u>	<u>(7,679,502)</u>	<u>(7,717,573)</u>
Net member premium earned	15,981,666	16,010,902	14,637,048
Operating Expenses			
Loss and loss adjustment expenses - Net of reinsurance	8,343,600	10,299,555	13,401,572
Service agent fee	4,342,167	4,448,890	4,172,851
Administrative expenses	<u>340,099</u>	<u>396,829</u>	<u>382,675</u>
Total operating expenses	<u>13,025,866</u>	<u>15,145,274</u>	<u>17,957,098</u>
Operating Income (Loss)	2,955,800	865,628	(3,320,050)
Nonoperating Income (Expenses)			
Interest and dividend income	1,993,941	1,786,416	2,043,523
Realized and unrealized gains on investments	3,302,883	5,631,308	8,220,601
Income from investment in NLC Mutual Insurance	723,249	773,514	516,541
Other income	1,602	21,499	4,847
Distributions to members	<u>(1,566,177)</u>	<u>(1,528,214)</u>	<u>(2,044,791)</u>
Net nonoperating income	<u>4,455,498</u>	<u>6,684,523</u>	<u>8,740,721</u>
Change in Net Position	7,411,298	7,550,151	5,420,671
Net Position			
Beginning of year	<u>58,888,758</u>	<u>51,338,607</u>	<u>45,917,936</u>
End of year	<u>\$ 66,300,056</u>	<u>\$ 58,888,758</u>	<u>\$ 51,338,607</u>

In addition to net position, when assessing the overall health of the Pool, 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 Pool and its members.

- The Pool's total assets have increased 17.8 percent over the past three years, from \$89.2 million to \$105.1 million. This increase is primarily result from increases in the investment portfolio. The Pool's investment portfolio increased 5.9 percent during the year, and 16.2 percent over the past 3 years.
- The investment portfolio consists of a variety of fixed-income and equity securities. The fixed-income securities, representing 74.4 percent of the portfolio, range from Treasury and Agency type securities, AAA to BBB rated securities, to high yield corporate bonds.
- The average life of the fixed-income securities is 4.12 years with an effective duration of 3.84 years and averaging a yield to maturity of 1.38 percent.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

- Pool equity investments, representing 25.6 percent of the portfolio, consist of funds invested in both a domestic international high dividend exchange traded funds comprised of blended large cap, value, and growth stocks; and diversified emerging stocks.
- Premium receivables represent amounts due from members that have policies effective in December. During the year, 99 percent of premiums billed are also collected during the year. The offer to return dividends following renewals encourages members to promptly pay their renewal premiums in anticipation of receiving their dividend checks. At year end, there was a 35.2 percent decrease in premium receivables due to several members delaying payment because of the COVID-19 office restrictions in the prior year.
- Reinsurance receivables on paid claims increased 76.0 percent in 2021 compared to 2020. The year-end receivable represents amounts due from reinsurers for three auto no-fault, and six property claims paid during 2021 and prior. The 2021 reinsured claim activity included a net increase of about \$0.6 million on 13 large reinsured claims and collections of \$344,815 from reinsurers during the year.
- Prepaid expenses include the prepaid asset balance of \$508,334 for the Lansing Capitol Office building. The Pool paid \$800,000 to MML for acquiring and renovating the Lansing Capitol Office. The \$800,000 pre-payment is being amortized over 40 years.
- The Pool's Investment in NLC Mutual Insurance Company increased 10.6 percent for the year, at a value of \$7.6 million, which represents 3.2 percent of NLC Mutual's total members' equity.
- Total liabilities increased 2.4 percent since 2019, from \$37.9 million to \$38.8 million. This increase is the result of an increase in the accounts payable of \$932,220. This increase is due to a timing of when payments were made on 2021 expenses. Over the year 2021, net reserves for losses and loss adjustment expenses (case reserves) decreased 7.2 percent. The net reserves for incurred but not reported losses decreased 0.4 percent. The 2021 year-end actuarial analysis reveals an overall \$5.7 million improvement of prior years' reserves, resulting in an overall decrease in total net loss reserves.
- Net position increased 29.1 percent, from \$51.3 million in 2019 to \$66.3 million in 2021. The Pool's financial position has increased primarily due to improvements in prior year reserves and investment results.

Capital Assets and Debt Administration

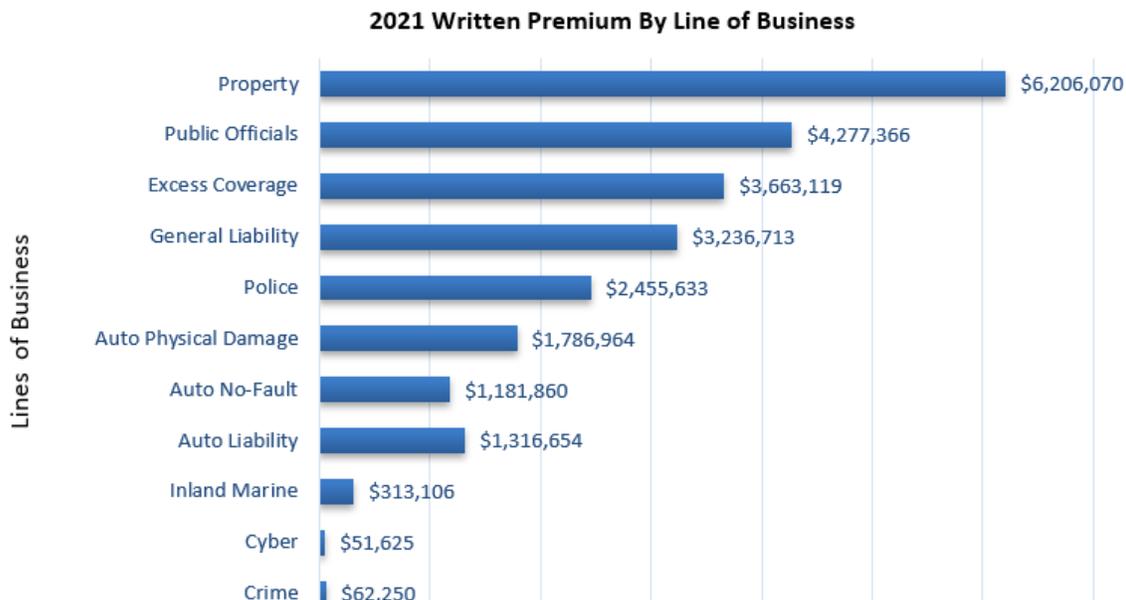
The Pool has no long-term debt. All material commitments and contingencies are disclosed in Note 7 to the financial statements. The Pool has no plans to encumber any debt or enter into additional commitments in the foreseeable future.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Member Premiums Earned

During 2021, the Pool provided insurance coverage to 431 members. Pool coverage includes property, public officials, excess coverage, general liability, police, auto, inland marine, crime, and cyber security.



Written premiums for 2021 totaled \$24.3 million, a 0.8 percent increase over 2020, and a 5.7 percent increase over 2019. Variations in written premium result from rate increases, changes in member coverage limits and deductibles, variations in applied underwriting credits and debits, and changes in ratable exposures, including property values, number of vehicles, and employee payrolls. Written premiums are recognized as earned on a pro-rata basis over the life of the policy term.

For the year ended December 31, 2021, the Pool reported direct earned premiums of \$24.4 million compared to \$23.7 million and \$22.4 million for the years ended December 31, 2020 and 2019, respectively.

Reinsurance Premiums Expense

The Pool retains the first \$500,000 of each casualty loss and \$250,000 of each property loss. Reinsurance coverage is obtained to protect the Pool against losses in excess of the \$500,000 casualty and \$250,000 property retentions. Casualty reinsurers participate on various layers ranging from \$500,000 up to \$15,000,000. Participating casualty reinsurers in 2021 were Munich Reinsurance Company (40%), Everest Reinsurance Company (25%), Lloyds of London (20%), and National League of Cities (NLC) Mutual Insurance Company (15%). Effective April 1, 2021, the Pool no longer contracts with Munich Reinsurance Company and has increased the participation of NLC (50%) and Lloyds of London (25%). The participation of Everest Reinsurance Company remained consistent with prior years (25%).

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Effective from 4/01/2020 - 3/31/2021

Individual Casualty Losses	\$5,000,000 xs \$10,000,000 Munich Re 100%	1
	\$5,000,000 xs \$5,000,000 Munich Re 40% Everest Re 25% NLC Mutual 15% Lloyd's of London 20%	47
	\$3,000,000 xs \$2,000,000 Munich Re 40% Everest Re 25% NLC Mutual 15% Lloyd's of London 20%	179
	\$1,000,000 xs \$1,000,000 Munich Re 40% Everest Re 25% NLC Mutual 15% Lloyd's of London 20%	121
	\$500,000 xs \$500,000 Munich Re 40% Everest Re 25% NLC Mutual 15% Lloyd's of London 20%	84
	\$500,000 Retention	431
Reinsurance Program		# of Members

Effective from 4/01/2021 - 3/31/2022

Individual Casualty Losses	\$5,000,000 xs \$10,000,000 NLC Mutual 100%	1
	\$5,000,000 xs \$5,000,000 NLC Mutual 50% Everest Re 25% Lloyd's of London 25%	47
	\$3,000,000 xs \$2,000,000 NLC Mutual 50% Everest Re 25% Lloyd's of London 25%	178
	\$1,000,000 xs \$1,000,000 NLC Mutual 50% Everest Re 25% Lloyd's of London 25%	122
	\$500,000 xs \$500,000 NLC Mutual 50% Everest Re 25% Lloyd's of London 25%	84
	\$500,000 Retention	431
Reinsurance Program		# of Members

NLC Mutual provides reinsurance for the first \$1,000,000 in property losses through two reinsurance layers in excess of the MML \$250,000 deductible per occurrence. The Pool is also responsible for the first \$500,000 of ultimate net loss, exceeding the \$250,000 deductible, in the aggregate for all property claims. Travelers Indemnity Company provides reinsurance for losses in excess of \$1,000,000 up to \$250,000,000. Boiler and machinery coverage is provided by XL Insurance America, Inc. for losses in excess of \$100,000 up to \$100,000,000.

Michigan Municipal League Liability and Property Pool
Management’s Discussion and Analysis (Continued)

Property \$250,000,000 xs \$1,000,000 Travelers Indemnity Company	Boiler & Machinery \$100,000,000 xs \$100,000 XL Insurance America, Inc. AXA AL Parent Company
\$500,000 xs \$500,000 NLC Mutual Insurance Company	
\$250,000 xs \$250,000 NLC Mutual Insurance Company	
\$250,000 Deductible Per Occurrence	\$100,000 Deductible Per Occurrence

Reinsurance premiums expense is reported at \$8.4 million for 2021, \$7.7 million for 2020, and \$7.7 million for 2019. Reinsurance premium expense also includes assessments to the Michigan Catastrophic Claims Association (MCCA) to protect the Pool against automobile no-fault losses in excess of \$600,000 and \$580,000 for policies issued or renewed during the two-year periods of 2021-2023 and 2019-2021, respectively. Annual MCCA assessment rates per vehicle have varied over the past three years ranging from \$220 for 2019-2020, down to \$100 for 2020-2021, and further decreased to \$86 for 2021-2022. The decrease beginning in July of 2020 is the result of No-Fault reform, as rates are only for policies that provide unlimited PIP. The Pool requires all member to obtain unlimited PIP coverage on vehicles insured by the Pool.

Investment Income

The Pool’s investment portfolio consists of fixed income and equity securities. The fixed income portfolio generated interest income totaling \$1.3 million during 2021, a 3.2 percent increase compared to 2020; and a 5.7 percent decrease compared to 2019. The equity portfolio generated dividend income totaling \$0.8million for 2021, \$0.6 million for 2020, and \$0.7 million for 2019, a 44 percent decrease from 2019 to 2021.

Net Change in the Fair Market Value of Investments

The Pool experienced a \$2.0 million decrease in the fair market value of investments in 2021, compared to the \$0.1 million increase in 2020 and the \$8.2 million increase in 2019. The portfolio generated a total positive return of 6.01 percent for 2021. The equity market had strong performance, which overcame the negative performance of the fixed income market. The fixed income portfolio under performed the benchmark due to the exposure to mortgage-backed securities and callable agency bonds, which underperformed due to interest rate volatility.

Michigan Municipal League Liability and Property Pool

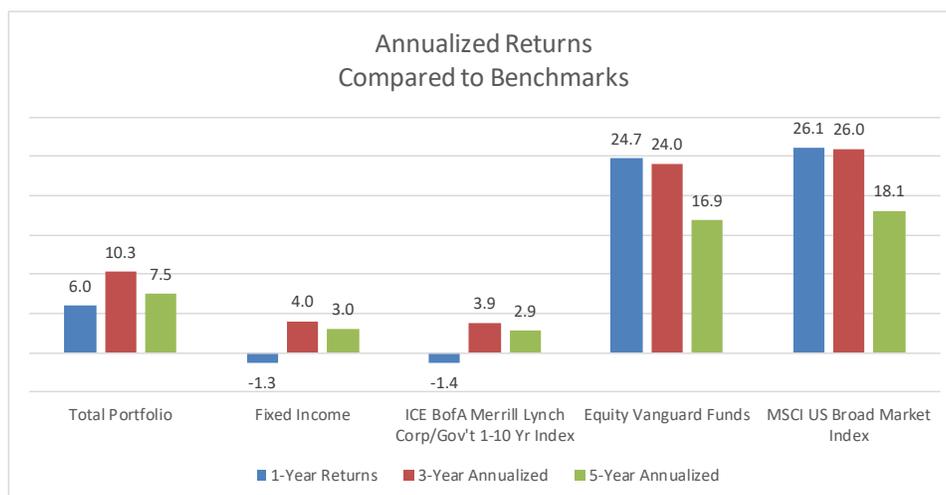
Management's Discussion and Analysis (Continued)

The fixed income allocation in the Pool's portfolio, comprising 74.4 percent of the total portfolio assets, returned (1.33) percent for the year, which outperformed the Bank of America Merrill Lynch Government/Credit 1-10 Year Index's return of (1.35) percent. The main driver of overperformance relative to the benchmark for the year was due to shorter duration (or less interest rate exposure). An overweight to the corporate bond sector and an underweight to government securities contributed to positive relative performance during the year. The portfolio has outperformed the benchmarks over the long run. The Pool's portfolio has produced returns of 3.00 percent and 2.32 percent over the last 5 and 10 years, respectively, compared to the benchmark's return of 2.85 percent and 2.12 percent for the same time periods.

The Pool's equity allocation, comprising 25.6 percent of the portfolio consists of two passive equity index exchanged traded funds (ETFs): the Vanguard Total Stock Market ETF and the Vanguard International High Dividend Yield Index ETF. The Vanguard Total Stock Market ETF invests in a blend of large capitalization growth and value stocks while the International ETF focuses on large capitalization value stocks with an emphasis on dividend yield. Both ETFs generated positive returns for the year.

The Vanguard Total Stock Market ETF represents 23.8 percent of the portfolio and returned 25.72 percent for 2021. The Vanguard International ETF represents 1.8 percent of the portfolio and returned a 15.00 percent in 2021.

The returns generated from the Pool's fixed-income and equity funds resulted in a total positive return of 6.01 percent for 2021, compared to a positive return of 9.89 percent for 2020, and a negative return of 15.24 percent for 2019.



Income from Investment in NLC Mutual Insurance Company

The Pool invested in NLC Mutual Insurance Company (NLC Mutual) in 1987. In accordance with current accounting guidance, the Pool accounts for the investment using the equity method, recognizing the Pool's 3 percent share of NLC Mutual's equity income within the financial statements.

NLC Mutual acts as a "pool of pools," It provides liability, property and workers' compensation reinsurance coverage to thousands of cities, towns, and villages through 27 league sponsored risk pools.

The income from NLC Mutual for 2021, 2020, and 2019 amounts to \$723,249, \$773,514, and \$516,541, based on the equity values of \$7,561,947, \$6,838,698, and \$6,065,184 as of December 31, 2021, 2020, and 2019, respectively. NLC Mutual also distributed dividend income of \$439,400 during 2021, \$101,233 in 2020, and \$103,728 in 2019.

Michigan Municipal League Liability and Property Pool

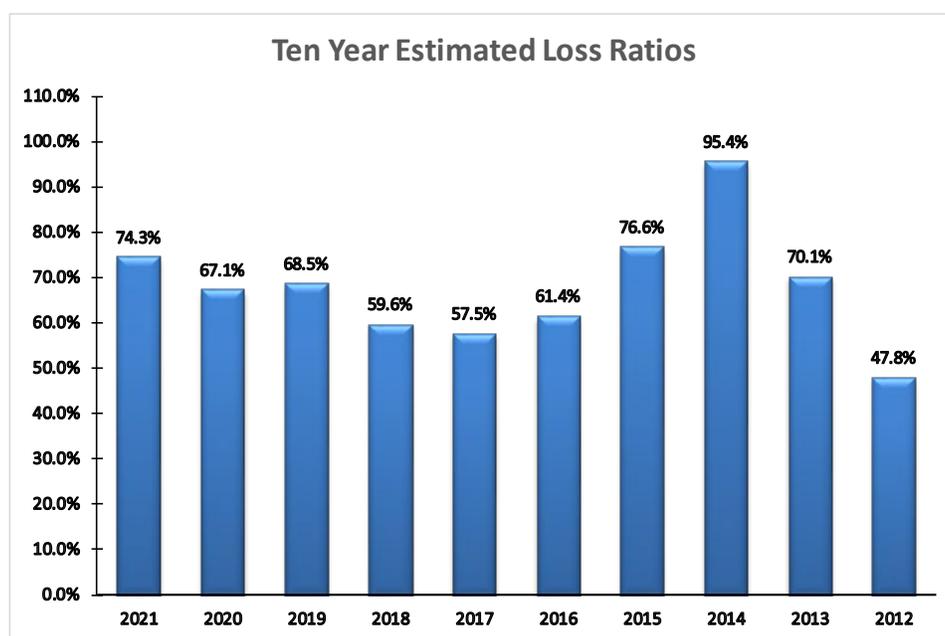
Management's Discussion and Analysis (Continued)

Losses and Loss Adjustment Expenses Incurred, Net of Reinsurance

The Pool administers claims and pays for covered losses experienced by its members. All claims are processed and managed by a third-party administrator. Attorneys, medical experts, and other professionals are contracted on an as-needed basis. Between the time a claim is reported and the time it is resolved, reserves are established for the estimated amount that will be paid at some future date to settle the loss. Reserves are also established for claims that have occurred but are not yet known to the Pool and for reported claims that are expected to develop. These IBNR (incurred but not reported) reserves are recognized in the current year for claims that will either not be reported until future periods or will increase in severity. This process allows a matching of current year premium with estimated total losses that will be incurred as the result of the member's current year coverage.

Incurred losses and loss adjustment expenses represent payments and changes in reserves for the year. Incurred loss and loss adjustment expenses were \$8.3 million for 2021, \$10.3 million for 2020, and \$13.4 million for 2019.

Loss ratios have averaged 67.8 percent over the past 10 years. The high loss ratio in 2014 is predominantly driven by unfavorable claim activity in the property line of coverage. For all the non-auto liability lines, early indications for the 2021 year show somewhat higher loss ratios than 2020. The 2021 police liability and public officials' liability loss ratios are unfavorable and being subsidized by the favorable loss ratios of the general liability line of coverage.



Service Agent Fees

The Pool is sponsored and administered by the Michigan Municipal League (MML) as a service for MML members and other public sector entities. The Pool has no employees. As such, the Pool contracts with MML and AmeriTrust (AMT) (formerly Meadowbrook Insurance Group) for most administrative services.

Service agent fees represent the services fees paid pursuant to the MML and AMT contracts. The MML contract provides for risk management and financial management services as well as facilities and equipment at an annual cost of \$1,511,424. The MML service fee is adjusted annually for inflation. During 2007, the Pool agreed to pay MML \$800,000 for use of common office space and facilities within the League Capitol Office. The \$800,000 payment is accounted for as a pre-payment for the Pool's usage of the space and amortized over a 40-year period, the term of the lease agreement. The 2021 unamortized balance is reported at \$508,334.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

The AMT contract provides for marketing, underwriting, claims administration, and loss control risk services at an annual fee of \$2,649,844.

Service agent fees also include bank charges, custodial fees, investment management, and advisory fees that total \$183,139 for 2021, a 11.1 percent increase when compared to 2020, and an 18.1 percent increase when compared to 2019.

Administrative Expenses

In providing coverage and other member services, the Pool incurs administrative expenses and contract service fees. All administrative expenses are budgeted and monitored monthly for compliance with budgetary limits. Administrative expenses include actuarial, financial audit, and legal fees; board meetings and travel; information and technology services; printing and office supplies; subscriptions and memberships; office rent; etc.

Administrative expenses of \$340,099 for 2021 represent a 14.3 percent decrease compared to 2020 and a 11.1 percent decrease compared to 2019. Property appraisal fees and management consulting fees decreased during the year. The decrease in the property appraisal fees is based on when the work is performed by the appraisal firm. The decrease in management consulting fees is due to a project that was done in the prior year. Information technology, audit fees, actuary fees, meeting fees, membership fees, and miscellaneous expenses, experienced insignificant increases from the prior year. All other expenses decreased slightly from the prior years.

Distributions to Members

Distributions to members amounted to \$1.6 million in 2021, \$1.5 million in 2020, and \$2.0 million in 2019. Members who have participated continuously during the previous five years share in a pro-rata distribution in accordance with the percentage that their annual premium equates to the Pool's total written premium during the preceding year. Members who have participated in the program for less than five years receive proportionally reduced shares. New or returning members are not eligible to participate in the distribution, although the board approved a distribution schedule that provides for graduated participation over a five-year period in the event future dividends are declared.



Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Budgetary Highlights

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

	Budgeted	Actual	Variance Favorable (Unfavorable)
Member premiums earned	\$ 23,900,000	\$ 24,358,787	\$ 458,787
Less reinsurance premiums expense	<u>(8,000,000)</u>	<u>(8,377,121)</u>	<u>(377,121)</u>
Net member premiums earned	15,900,000	15,981,666	81,666
Investment income including change in fair value of investments and other income	<u>2,255,000</u>	<u>6,021,675</u>	<u>3,766,675</u>
Total revenue	18,155,000	22,003,341	3,848,341
Expenses:			
Loss and loss adjustment expenses incurred - Net of reinsurance	12,000,000	8,343,600	3,656,400
Service agent, marketing, and risk control fees	4,194,600	4,342,167	(147,567)
Administrative expenses	497,500	340,099	157,401
Distributions to members	<u>1,600,000</u>	<u>1,566,177</u>	<u>33,823</u>
Total expenses	<u>18,292,100</u>	<u>14,592,043</u>	<u>3,700,057</u>
Excess of expenses over (under) revenue	<u>\$ (137,100)</u>	<u>\$ 7,411,298</u>	<u>\$ 7,548,398</u>

The following is an explanation of the significant variances of the budget to actual for 2021.

Earned premiums exceeded the 2021 budget parameter by 1.9 percent. The Pool gained six and lost six members during the year, netting a net decrease in written premiums of \$5,580. The Pool renewed 98.6 percent of the total Pool membership with the majority of members renewing premiums at a higher level. Net premium increases averaged 2.2 percent or netting to approximately \$0.5 million in additional premium. The policy of returning dividends to members following their 2021 renewals has helped to retain members within this competitive environment.

Reinsurance premiums were 4.7 percent higher than the budgeted parameters. The budget anticipated increased premium levels to which the reinsurance rates are applied, flat casualty reinsurance renewal rates, and \$450,000 for MCCA assessments. Actual liability reinsurance premium rates averaged a 4.7 percent increase over all layers. Property reinsurance renewed at a higher rate compared to the prior year due to minimal competition in the market. Additionally, property rates continued to climb for the entire property insurance industry due to weather related catastrophes. The 2020-2021 MCCA final assessment came in at \$678,953, which was higher than the budgeted amount.

The combination of investment income, the change in fair market of the investment portfolio, and NLC Mutual's equity income exceeded the budgeted parameter by about \$3.8 million. The Pool's portfolio increased in overall value by \$12.8 Million. The portfolio earned a total positive return of 6.7 percent for 2021. Additionally, NLC Mutual's equity income, budgeted at \$500,000, exceeded the budget parameter by about \$223,000.

Overall, losses and loss adjustment expenses, net of reinsurance, were lower than the budget anticipated due to a decrease in case reserves and IBNR reserves during the year. Net claim payments decreased during the year by 5.8 percent, the net change in case reserves decreased by 26.7 percent, and the net IBNR and other reserve changes decreased by over 100 percent during the year, resulting in a 30.5 percent positive budget variance.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Service agent, marketing, and risk control fees are within the budgeted parameters. The MML service fee is adjusted annually for inflation. The AMT service fee reflects revised terms that became effective July 1, 2021 and an additional contingency profit fee. Investment manager and bank fees came within budget due to the variation in investment values within the investment portfolio.

Administrative expenses include various expenses such as legal fees, actuarial fees, audit fees, loss control, information technology, director expenses, etc. All expenses were lower than anticipated in the budget, except for miscellaneous expenses.

Economic Factors

Prudent Management and Governing Board Oversight

The mission of the Pool is to be long term, stable, and cost effective. The Pool is managed by a nine-member board of elected and appointed officials. The board meets quarterly to review operations and meets annually to conduct strategic planning and goal-setting. An audit committee reviews the year-end financial statements and makes recommendations in that regard to the full board of directors. The Pool is audited on a tri-annual basis by the State of Michigan Department of Insurance and Financial Services and files a Comprehensive Annual Financial Report.

Investment Risk

A significant portion of the Pool's annual net income is derived from its investments. Investments are professionally and independently managed, with quarterly reports to the governing board. Additionally, a professional investment advisory firm provides quarterly reports to the governing board, which independently reviews the investment manager's performance.

The deposits and investments of the Pool are exposed to risks that have the potential to result in losses. As such, there is the risk that the Pool will not earn expected returns and that investments may lose value. The Pool may be exposed to common deposit and investment risks that relate to credit risk, concentration of risk, interest rate risk, and foreign currency risk. In accordance with Statements No. 40 of the Governmental Accounting Standards Board, disclosures are presented in Note 3 on pages 22-24 of the audit report to inform readers about deposit and investment risks that could affect the Pool's ability to provide services and meet its obligations.

Risk of Inadequate Loss Reserves

With quarterly reserve reviews by an independent actuary, and regular independent claim reviews, management considers the risk of using significant amounts of surplus to strengthen loss reserves to be low.

Reinsurance Cost

Reinsurance costs are subject to market fluctuations and losses worldwide over which the Pool has little control. The MCCA assessment is one of these areas. However, given the Pool's loss experience, management expects Pool casualty reinsurance costs to remain relatively stable in the future.

Future Projects

In light of the Pool's surplus position, the Pool board of directors approved a plan to distribute a \$1.6 million dividend to current members, to be paid upon their renewal in the program throughout 2022. After careful consideration of the Pool's current financial position and future volatility of the investment markets, it is determined that this dividend distribution will not affect the Pool's strong financial position.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Contacting the Pool's Management

The financial report is designed to provide our members, customers, and the general public with a general overview of the Pool's finances and to demonstrate the Pool's accountability for the money it receives. For more information about the Michigan Municipal League Liability and Property Pool, visit our website at www.mml.org.

Michigan Municipal League Liability and Property Pool

Statement of Net Position

	December 31, 2021 and 2020	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,726,829	\$ 2,527,760
Investments at fair value (Notes 3 and 8)	2,879,737	5,738,405
Accounts receivable:		
Premiums	460,889	711,061
Reinsurance	463,353	263,230
Claim deductibles	104,666	477,242
Prepaid expenses and other assets:		
Prepaid expenses (Note 7)	20,000	20,000
Accrued interest income	296,622	269,755
Other current assets	284,565	277,037
Total current assets	8,236,661	10,284,490
Noncurrent assets:		
Investments at fair value (Notes 3 and 8)	88,829,025	80,881,780
Investment in NLC Mutual Insurance Company (Note 2)	7,561,947	6,838,698
Prepaid lease - Net of current portion (Note 7)	488,334	508,334
Total noncurrent assets	96,879,306	88,228,812
Total assets	105,115,967	98,513,302
Liabilities		
Current liabilities:		
Accounts payable	1,027,723	562,011
Current portion of loss and loss adjustment expense reserves (Note 4)	3,861,069	4,397,579
Current portion of incurred but not reported loss and loss adjustment expense reserves (Note 4)	5,054,066	5,366,519
Unearned member premiums - Net	10,490,479	10,818,210
Dividends payable	31,378	-
Total current liabilities	20,464,715	21,144,319
Noncurrent liabilities:		
Net reserve for losses and loss adjustment expenses - Net of current portion (Note 4)	7,947,746	8,323,170
Net reserve for incurred but not reported losses and loss adjustment expense (Note 4)	10,403,450	10,157,055
Total noncurrent liabilities	18,351,196	18,480,225
Total liabilities	38,815,911	39,624,544
Net Position - Unrestricted	\$ 66,300,056	\$ 58,888,758

Michigan Municipal League Liability and Property Pool

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenue		
Member premiums	\$ 24,358,787	\$ 23,690,404
Less reinsurance premiums expense	(8,377,121)	(7,679,502)
Net premium revenue earned	15,981,666	16,010,902
Operating Expenses		
Loss and loss adjustment expenses - Net of reinsurance (Note 4)	8,343,600	10,299,555
Service agent fees	4,342,167	4,448,890
Administrative expenses	340,099	396,829
Total operating expenses	13,025,866	15,145,274
Operating Income	2,955,800	865,628
Nonoperating Income (Expenses)		
Interest and dividend income	1,993,941	1,786,416
Realized and unrealized gains on investments	3,302,883	5,631,308
Distributions to members	(1,566,177)	(1,528,214)
Other income	1,602	21,499
Income from investment in NLC Mutual Insurance Company	723,249	773,514
Total nonoperating income	4,455,498	6,684,523
Change in Net Position	7,411,298	7,550,151
Net Position - Beginning of year	58,888,758	51,338,607
Net Position - End of year	\$ 66,300,056	\$ 58,888,758

Michigan Municipal League Liability and Property Pool

Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from member premiums	\$ 24,324,791	\$ 24,107,900
Receipts from reinsurers	346,615	2,224,487
Receipts from claim deductibles	599,439	445,427
Payments on claims	(10,095,193)	(12,557,648)
Payments to reinsurers	(8,420,684)	(7,717,089)
Payments for expenses	(4,204,082)	(3,903,115)
Net cash and cash equivalents provided by operating activities	2,550,886	2,599,962
Cash Flows Used in Noncapital Financing Activities - Distributions to members	(1,534,799)	(1,551,942)
Cash Flows from Investing Activities		
Receipts from interest income	1,967,074	1,785,250
Purchases of securities	(61,199,437)	(38,360,041)
Sales and maturities of securities	59,415,345	36,321,232
Net cash and cash equivalents provided by (used in) investing activities	182,982	(253,559)
Net Increase in Cash and Cash Equivalents	1,199,069	794,461
Cash and Cash Equivalents - Beginning of year	2,527,760	1,733,299
Cash and Cash Equivalents - End of year	<u>\$ 3,726,829</u>	<u>\$ 2,527,760</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents from Operating Activities		
Operating income	\$ 2,955,800	\$ 865,628
Adjustments to reconcile operating income to net cash and cash equivalents from operating activities:		
Premiums receivable	250,172	(488,755)
Claim deductibles receivable	372,576	(9,767)
Reinsurance receivables on paid claims	(200,123)	16,019
Prepaid expenses and other assets	12,472	476,096
Net reserve for losses and loss adjustment expenses	(911,934)	(1,244,810)
Net reserve for incurred but not reported losses and loss adjustment expenses	(66,058)	1,650,379
Unearned member premiums - Net	(327,731)	868,664
Accounts payable	465,712	466,508
Net cash and cash equivalents provided by operating activities	<u>\$ 2,550,886</u>	<u>\$ 2,599,962</u>
Noncash Investing Activities - Net unrealized loss (gain) on investments	\$ 2,029,472	\$ (123,973)

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 - Nature of Business

Michigan Municipal League Liability and Property Pool (the "Pool") was established in 1982 under Public Act 138 of 1982, as amended by Public Act 36 of 1988, to develop and administer a group program of liability and property self-insurance for Michigan municipalities. The objectives of the Pool are to establish and administer a municipal risk management service, reduce the incidence of property and casualty losses occurring in the operation of local governmental functions, and defend members of the Pool against stated liability or loss.

Any city or village that is a member of the Michigan Municipal League (the "League") or any municipality of any city or village or any governmental entity that holds service associate status with the League is eligible to participate in the Pool. There were 431 members in the Pool at December 31, 2021 and 2020.

Member premiums are combined to provide each member with coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credit toward future member premiums, as determined by the board of directors (the "board"). Dividend expenses and liabilities are recorded when a dividend has been approved by the board. Alternatively, the board may increase liability limits or offer additional services to the members.

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities.

The Pool distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Pool's principal ongoing operations. The principal operating revenue and expenses of the Pool relate to premium revenue, reinsurance premium expense, loss and loss adjustment expenses, service agent fees, and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings and distribution to members are reported as nonoperating revenue.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term investments with a maturity of three months or less when purchased. Cash equivalents consist of an investment in a federated government obligations money market mutual fund at December 31, 2021.

Investments

The Pool is invested primarily in fixed-maturity securities and equity securities, which are stated at fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the statement of revenue, expenses, and changes in net position.

Receivables

Receivables from members are stated at net invoice amounts. Receivables from reinsurers and for deductibles are computed based on the applicable treaty. Collectibility of balances is reviewed periodically. Any amounts deemed uncollectible are written off at that time. No allowance for bad debts has been recorded because management considers all receivables to be collectible.

December 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

NLC Mutual Insurance Company

NLC Mutual Insurance Company (NLC Mutual) is a captive insurance company formed by risk pools associated with certain state municipal leagues, including the Pool. The Pool invested in NLC Mutual in 1987 as a prerequisite for membership. The Pool recognizes as revenue the Pool's share of NLC Mutual's income within its financial statements. As of December 31, 2021 and 2020, the Pool's investment in NLC Mutual was \$7,561,947 and \$6,838,698, respectively. There were no distributions received in 2021 and 2020.

Unearned Member Premiums

Unearned member premiums represent the unexpired portion of premiums written in the current year for policies remaining effective into the next fiscal year. Unearned member premiums also include advanced premiums, which represent cash received for policies effective in the next fiscal year.

Net Reserves for Losses and Loss Adjustment Expenses

The Pool establishes claims liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoveries are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on both actual historical data that reflects past inflation and other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. The Pool retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by the Pool. As claims are paid over a period of time, the Pool discounts its loss reserves to present value (as allowed by the State of Michigan Department of Insurance and Financial Services). The Pool utilized a 2 percent discount in 2021 and 2020.

Premium Deficiency Reserve

Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claims adjustment expenses exceed related unearned premiums. The Pool determines whether a premium deficiency reserve is necessary, including investment income as a factor in the premium deficiency calculation. No premium deficiency reserve was required at December 31, 2021 and 2020.

Member Premiums

Member premiums are recognized as revenue in the year to which they apply. Member premiums are established at rates determined in accordance with rating guidelines authorized by the board of directors pursuant to the recommendation of the Pool's actuarial firm.

Federal Income Tax Status

The Pool is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 35, as amended, of the Public Acts of 1951. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes and, as such, is not subject to federal income tax under Section 115 of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes is reflected in the financial statements.

December 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Risk Management

The Pool is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Pool has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Significant estimates related to the fair value of investments and allowances for unsettled claims and claims incurred but not reported.

Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Pool is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Pool's financial statements for the year ending December 31, 2022.

Note 3 - Investments

Although the Pool is not subject to any legal restriction on types of investments, the board has elected to adopt an investment policy that allows for specific investments that conform to the requirements of the Michigan State Law for Public Retirement Funds. In general, this Michigan law allows investments in obligations issued, assumed, or guaranteed by a solvent entity created or existing under the laws of the United States or of any state, district, or territory of the United States, which are not in default as to principal or interest.

The Pool's investment policy further prohibits any transactions involving short sales, margin purchases, and the purchase of derivatives securities and the securities of the investment manager's corporation. The investment policy also restricts the purchase of mortgage-backed securities, including collateralized mortgage obligations limited to 35 percent of the portfolio's fixed-income securities market value. No unrated corporate securities are to be purchased. All fixed-income securities, excluding U.S. government securities, are limited to 5 percent of the portfolio at the market value per issuer.

The Pool's investment policy allows for investments into equity-type securities. Investment allocation to the entity portfolio is defined in terms of the Pool's reserves and surplus. The reserve component is based on the number of undiscounted reserves expected to be paid after a period of 10 years. The surplus component is limited to 40 percent of the Pool's surplus (i.e., net position). The sum of the reserve and surplus components represents the maximum amount, at market value, of the Pool's equity investment.

The Pool's investments are held in the Pool's name. The Pool has designated Key Bank and JPMorgan for the deposit of its investments.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 - Investments (Continued)

The Pool's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool has a deposit policy for custodial credit risk. The Pool believes that, due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (FDIC) insurance, it is impractical to insure all deposits. As a result, the Pool evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At December 31, 2021, the Pool had \$4,045,702 of uninsured funds.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Pool's investment policy does not restrict investment maturities. The Pool's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Pool's cash requirements.

At December 31, 2021, the Pool had the following fixed-income investments subject to interest rate risk:

Investment Type	Fair Value	Weighted-average Maturity (Years)
U.S. government securities	\$ 33,334,128	3.75
U.S. government mortgage-backed securities	2,564,964	2.50
Corporate mortgage-backed securities	1,776,113	3.19
Corporate bonds	30,561,623	5.31
Total	<u>\$ 68,236,828</u>	

At December 31, 2020, the Pool had the following fixed-income investments subject to interest rate risk:

Investment Type	Fair Value	Weighted-average Maturity (Years)
U.S. government securities	\$ 30,514,454	3.54
U.S. government mortgage-backed securities	4,209,881	2.31
Corporate mortgage-backed securities	642,944	1.43
Corporate bonds	25,214,941	5.32
Total	<u>\$ 60,582,220</u>	

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 - Investments (Continued)

Credit Risk

The Pool's fixed-income investment portfolio consists of a variety of securities, ranging from Treasury and agency-type securities to AAA-rated to BBB-rated securities. The overall quality rating of the fixed-income portfolio is equal to an AA-rated portfolio on a market value-weighted basis. No unrated corporate securities are purchased.

The rating organization used by the Pool to rate its investments is Standard & Poor's. For securities not rated by Standard & Poor's, Moody's or Fitch ratings are provided.

At December 31, 2021, the credit quality ratings of debt securities (without regard to investment type) are as follows:

Rating	Fair Value	Quality Weightings
U.S. government	\$ 35,899,092	52.61
AAA	487,709	0.71
AA	4,859,248	7.12
A	12,828,877	18.80
BBB	14,161,902	20.75
Total	<u>\$ 68,236,828</u>	

At December 31, 2020, the credit quality ratings of debt securities (without regard to investment type) are as follows:

Rating	Fair Value	Quality Weightings
U.S. government	\$ 34,724,335	57.32
AAA	642,944	1.06
AA	643,745	1.06
A	12,103,590	19.98
BBB	12,467,606	20.58
Total	<u>\$ 60,582,220</u>	

Concentration of Credit Risk

The objective of the Pool's investment policy is to generate a well-diversified portfolio without any inappropriate credit concentrations. Other than direct obligations of the U.S. government, no individual issue can exceed 5 percent of the portfolio per the investment policy guidelines. This restriction reduces the Pool's exposure to the risk of credit concentration. The Pool's investments were in compliance with its stated investment policy regarding concentration at December 31, 2021 and 2020.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Pool's portfolio has no non-U.S. dollar investments, although such investments are not specifically prohibited by the investment policy. As such, the Pool is not subject to any foreign currency risk.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 4 - Net Losses and Loss Adjustment Expenses

The Pool establishes reserves for both reported and unreported insured events; reserves include estimates for future payments of losses and related loss adjustment expenses. The following represents a summary of the Pool's changes in net losses and loss adjustment expenses for the years ended December 31, 2021, 2020, and 2019 (amounts are net of the effects of reinsurance):

	2021	2020	2019
Net losses and loss adjustment expenses (undiscounted) - Beginning of fiscal year	\$ 29,199,759	\$ 28,721,623	\$ 26,174,354
Incurring losses and loss adjustment expenses:			
Provisions for insured events of the current fiscal year	14,854,067	14,222,980	12,830,936
Change in provision for insured events of prior fiscal years	<u>(6,510,467)</u>	<u>(3,923,425)</u>	<u>570,636</u>
Total incurred losses and loss adjustment expenses	8,343,600	10,299,555	13,401,572
Payments:			
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	4,352,628	2,781,793	3,595,041
Losses and loss adjustment expenses attributable to insured events of the prior fiscal year	<u>4,744,341</u>	<u>7,039,626</u>	<u>7,259,262</u>
Total payments	<u>9,096,969</u>	<u>9,821,419</u>	<u>10,854,303</u>
Net losses and loss adjustment expenses (undiscounted) - End of year	28,446,390	29,199,759	28,721,623
Discount of net losses and loss adjustment expenses	<u>(1,180,059)</u>	<u>(955,436)</u>	<u>(882,869)</u>
Net discounted losses and loss adjustment expenses - End of year	<u>\$ 27,266,331</u>	<u>\$ 28,244,323</u>	<u>\$ 27,838,754</u>

During 2021 and 2020, there was favorable development, and, during 2019, there was unfavorable development in incurred loss and loss adjustment expenses related to prior accident years. These developments primarily related to the resolution of certain litigated claims. The decrease in the provision for insured events of prior fiscal years is primarily related to the liability line of coverage.

Note 5 - Reinsurance Agreements

The Pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of claims from reinsurers, although it does not discharge the primary liability of the Pool as direct insurer of the risks reinsured. The portion of claims covered by reinsurance is not reported as a liability, nor is the related recoverable from the reinsurer recorded as an asset.

Accordingly, reserves have been reduced by approximately \$1,330,000 and \$1,350,000 at December 31, 2021 and 2020, respectively, for amounts recoverable from reinsurers.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 5 - Reinsurance Agreements (Continued)

The Pool has obtained specific excess reinsurance and aggregate excess reinsurance for liability and property coverages, a portion of which is contracted with NLC Mutual, a related party. The table below displays the amount of risk retained by the member, the Pool, and the reinsurers by policy type:

Policy	Member Responsibility	Pool Coverage	Reinsurance
Liability	Liability	\$0 to \$125,000 per occurrence; most members have \$0 deductible	Individual claims between members' responsibility and \$500,000 plus an additional \$1,000,000 aggregate reinsurance deductible
Property	Property	\$1,000 to \$50,000 deductible per occurrence; most members have \$1,000 deductible	Individual claims up to \$250,000 after the member deductible
Property - Boiler and machinery	Property - Boiler and machinery	\$1,000 to \$50,000 deductible per occurrence; most members have \$1,000 deductible	Individual claims, excluding electrical claims, up to \$100,000 after the member deductible; electrical claims up to \$250,000 after the member deductible
Cyberliability and data breach	Cyberliability and data breach	\$2,500 to \$10,000 deductible per occurrence; most members have \$2,500 deductible	Individual claims, after member deductible, up to \$100,000 general membership or specific higher limits are available up to \$1 million subject to reinsurer approval and terms. Pool coverage is supported 100 percent by reinsurance, and reinsurer handles claim

In addition to the reinsurance described above, the Pool has aggregate loss coverage for liability claims beginning at \$20,000,000 up to \$32,000,000 for the period from April 1, 1997 through April 1, 2009. Total aggregate reinsurance coverage is limited to \$500,000 per occurrence and \$5,000,000 total.

For property claims, the Pool is also subject to a loss corridor for the first \$500,000 of ultimate net losses exceeding the \$250,000 deductible, in the aggregate.

Prepaid reinsurance premiums are netted against the related unearned member premiums. Prepaid reinsurance premiums were approximately \$1,380,000 and \$1,340,000 at December 31, 2021 and 2020, respectively.

In the event a reinsurance company does not meet its obligation to the Pool, responsibility for payment of any unreimbursed claims will be paid by the Pool using funds contributed by members for this purpose.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 5 - Reinsurance Agreements (Continued)

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	2021	2020
Member premiums:		
Direct	\$ 24,358,787	\$ 23,690,404
Ceded	(8,377,121)	(7,679,502)
Net member premiums	<u>\$ 15,981,666</u>	<u>\$ 16,010,902</u>
Claims and claim adjustment expenses incurred	8,863,967	11,004,071
Reinsurance recoveries	(520,367)	(704,516)
Net claims and claim adjustment expenses incurred	<u>\$ 8,343,600</u>	<u>\$ 10,299,555</u>

Note 6 - Net Position

At the discretion of the board of directors, net position may be returned to members in the form of dividends. The board declared dividends totaling \$1,566,177 and \$1,528,214 as of December 31, 2021 and 2020, respectively.

Note 7 - Commitment

The Michigan Municipal League provides certain administrative services to the Pool, including administrative, risk management, data processing, staff travel, printing, and supplies. Effective January 1, 2007, the Pool entered into a management agreement with the League. After December 31, 2007, the agreement automatically renews for a one-year term on January 1. Beginning in 2007, the Pool began paying the League a flat rate of \$1,080,000, with an annual increase of the lesser of the U.S. Department of Labor Consumer Price Index or 5 percent. Administrative fees expensed by the Pool were approximately \$1,511,000 and \$1,479,000 for 2021 and 2020, respectively. In June 2007, the Pool entered into a lease agreement with the League through 2047 for the use of common space and facilities within the League's capitol office. The Pool prepaid the total rent of \$800,000, which will be amortized over the lease term. Total rent expense under the new agreement was \$20,000 in 2021 and 2020.

Note 8 - Fair Value Measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and liabilities. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Pool's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2021 and 2020

Note 8 - Fair Value Measurements (Continued)

The Pool has the following recurring fair value measurements as of December 31, 2021 and 2020:

Assets Measured at Fair Value on a Recurring Basis December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Debt securities:				
U.S. government securities	\$ -	\$ 33,334,128	\$ -	\$ 33,334,128
U.S. government mortgage-backed securities	-	2,564,964	-	2,564,964
Corporate mortgage-backed securities	-	1,776,113	-	1,776,113
Corporate bonds	-	30,561,623	-	30,561,623
Total debt securities	-	68,236,828	-	68,236,828
Equity securities	23,471,934	-	-	23,471,934
Total	\$ 23,471,934	\$ 68,236,828	\$ -	\$ 91,708,762
Assets Measured at Fair Value on a Recurring Basis December 31, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Debt securities:				
U.S. government securities	\$ -	\$ 30,514,454	\$ -	\$ 30,514,454
U.S. government mortgage-backed securities	-	4,209,881	-	4,209,881
Corporate mortgage-backed securities	-	642,944	-	642,944
Corporate bonds	-	25,214,941	-	25,214,941
Total debt securities	-	60,582,220	-	60,582,220
Equity securities	26,037,965	-	-	26,037,965
Total	\$ 26,037,965	\$ 60,582,220	\$ -	\$ 86,620,185

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. government securities, U.S. government mortgage-backed securities, corporate mortgage-backed securities, and corporate bonds at December 31, 2021 and 2020 was determined primarily based on Level 2 inputs. The Pool estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Required Supplemental Information

Michigan Municipal League Liability and Property Pool

Required Supplemental Information Schedule of Claims Information for All Lines of Coverage

December 31, 2021

Claims Development Information

The table on the following page illustrates how the Pool earned revenue (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Pool as of the end of each of the last 10 years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to excess insurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Pool, including overhead and claims expense not allocable to individual claims.
3. This line shows the Pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest reestimated amount of claims assumed by excess insurers as of the end of the current year for each accident year.
6. This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Michigan Municipal League Liability and Property Pool

Required Supplemental Information Schedule of Claims Information for All Lines of Coverage (Continued)

December 31, 2021
in thousands

Policy Year Ended December 31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. Required contributions and investment income:										
Earned	\$ 21,636	\$ 23,569	\$ 21,512	\$ 19,892	\$ 23,732	\$ 26,633	\$ 21,142	\$ 33,141	\$ 31,903	\$ 30,380
Ceded	6,538	6,664	8,047	7,239	7,159	7,077	7,402	7,718	7,680	8,377
Net	15,098	16,905	13,465	12,653	16,573	19,556	13,740	25,423	24,223	22,003
2. Expenses other than allocated claim adjustment expenses	5,109	5,121	4,791	5,158	4,873	4,433	4,535	4,556	4,846	4,682
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	10,377	11,016	14,241	11,486	10,866	13,089	13,701	13,805	14,782	14,854
Ceded	475	820	3,198	1,417	991	2,125	1,729	974	559	-
Net	9,902	10,196	11,043	10,069	9,875	10,964	11,972	12,831	14,223	14,854
4. Cumulative paid claims and allocated claim adjustment expenses:										
End of policy year	2,034	2,225	3,361	2,798	2,141	3,186	3,556	3,595	2,782	4,353
One year later	3,794	3,648	4,873	4,404	3,587	4,281	5,083	5,906	5,096	-
Two years later	4,465	5,078	6,966	6,217	5,231	5,795	6,527	7,185	-	-
Three years later	5,357	6,488	8,259	7,975	6,832	6,790	6,798	-	-	-
Four years later	5,693	8,671	9,051	9,396	8,326	7,068	-	-	-	-
Five years later	5,994	9,055	9,946	10,002	8,687	-	-	-	-	-
Six years later	6,006	9,285	10,208	10,220	-	-	-	-	-	-
Seven years later	6,069	9,305	10,337	-	-	-	-	-	-	-
Eight years later	6,064	9,456	-	-	-	-	-	-	-	-
Nine years later	6,043	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	599	3,130	4,365	3,445	720	1,866	1,553	1,051	1,122	-
6. Re-estimated incurred claims and allocated claim adjustment expenses:										
End of policy year	9,902	10,196	11,043	10,069	9,875	10,964	11,972	12,831	14,223	14,854
One year later	8,485	8,760	10,416	10,509	9,765	9,817	12,076	13,733	12,544	-
Two years later	7,113	8,447	10,710	10,877	9,670	9,824	10,421	11,932	-	-
Three years later	6,661	8,933	9,842	11,532	10,286	8,905	8,941	-	-	-
Four years later	6,410	9,897	10,441	12,080	9,911	8,039	-	-	-	-
Five years later	6,143	10,125	10,545	10,505	9,908	-	-	-	-	-
Six years later	6,156	9,999	10,469	10,375	-	-	-	-	-	-
Seven years later	6,087	9,640	10,462	-	-	-	-	-	-	-
Eight years later	6,072	9,601	-	-	-	-	-	-	-	-
Nine years later	6,045	-	-	-	-	-	-	-	-	-
7. Change in estimated incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	(3,857)	(595)	(581)	306	33	(2,925)	(3,031)	(899)	(1,679)	-

Michigan Municipal League Liability and Property Pool

Required Supplemental Information

Schedule of Reconciliation of Net Reserves for Losses and Loss Adjustment Expenses

By Contract Type
Fiscal and Policy Years Ended December 31

	2021			2020			2019		
	Liability	Property, Boiler, and Machinery	Total	Liability	Property, Boiler, and Machinery	Total	Liability	Property, Boiler, and Machinery	Total
Net Losses and Loss Adjustment Expenses (Undiscounted) - Beginning of fiscal year	\$ 27,655,355	\$ 1,544,404	\$ 29,199,759	\$ 28,369,240	\$ 352,383	\$ 28,721,623	\$ 25,334,002	\$ 840,352	\$ 26,174,354
Incurred losses and loss adjustment expenses:									
Provision for insured events of the current fiscal year	11,454,559	3,399,508	14,854,067	11,540,155	2,682,825	14,222,980	11,457,913	1,373,023	12,830,936
Change in provision for insured events of prior fiscal years	(8,933,352)	2,422,885	(6,510,467)	(4,962,065)	1,038,640	(3,923,425)	594,608	(23,972)	570,636
Total incurred losses and loss adjustment expenses	2,521,207	5,822,393	8,343,600	6,578,090	3,721,465	10,299,555	12,052,521	1,349,051	13,401,572
Payments - Net of reinsurance recoveries and member deductibles:									
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	2,368,049	1,984,579	4,352,628	1,364,155	1,417,638	2,781,793	1,796,405	1,798,636	3,595,041
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	3,843,845	900,496	4,744,341	5,927,820	1,111,806	7,039,626	7,220,878	38,384	7,259,262
Total payments	6,211,894	2,885,075	9,096,969	7,291,975	2,529,444	9,821,419	9,017,283	1,837,020	10,854,303
Net Losses and Loss Adjustment Expenses (Undiscounted) - End of year	23,964,668	4,481,722	28,446,390	27,655,355	1,544,404	29,199,759	28,369,240	352,383	28,721,623
Discount of net losses and loss adjustment expenses	(994,141)	(185,918)	(1,180,059)	(937,587)	(17,849)	(955,436)	(875,639)	(7,230)	(882,869)
Net Discounted Losses and Loss Adjustment Expenses - End of fiscal year	\$ 22,970,527	\$ 4,295,804	\$ 27,266,331	\$ 26,717,768	\$ 1,526,555	\$ 28,244,323	\$ 27,493,601	\$ 345,153	\$ 27,838,754