



michigan municipal league

LIABILITY & PROPERTY POOL

Financial Report

With Supplemental Information

December 31, 2022



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, 2022 and 2021 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, 2022 and 2021 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 & Moran, PLLC

April 7, 2023

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, 2022. 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, 2022 and 2021. 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 \$92.9 million exceeded liabilities of \$40.0 million, resulting in the net position of \$52.9 million, a 20.2 percent decrease in net position from the prior year.
- Membership levels remained stable during the year. The return of the \$2.4 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, increased by 6.2 percent from the prior year. During 2022, ultimate loss and loss adjustment expense development, net of specific retentions, show a \$2.6 million overall decrease on prior years' results, driven by favorable development on liability claims, which was partially offset by unfavorable development in property claims.
- The Pool reported a negative change in net position of \$13.4 million in 2022, compared to a positive change in net position of \$7.4 million in 2021. The decrease in net position was primarily the result of poor market conditions throughout 2022, resulting in a decrease in the fair market value of investments of \$11.7 million and a decrease in the investment in NLC of \$1.3 million.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Comparative Statement of Net Position

	December 31		
	2022	2021	2020
Assets			
Current assets:			
Cash and cash equivalents	\$ 946,818	\$ 3,726,829	\$ 2,527,760
Investments at fair value	8,057,943	2,879,737	5,738,405
Premiums receivable	671,669	460,889	711,061
Reinsurance receivables on paid claims	918,292	463,353	263,230
Claim deductibles receivable	233,459	104,666	477,242
Prepaid lease - Current portion	20,000	20,000	20,000
Accrued interest receivable	386,970	296,622	269,755
Other current assets	566,109	284,565	277,037
Total current assets	11,801,260	8,236,661	10,284,490
Noncurrent assets:			
Investments at fair value	74,373,339	88,829,025	80,881,780
Investment in NLC Mutual Insurance Company	6,226,383	7,561,947	6,838,698
Prepaid lease - Net of current portion	468,334	488,334	508,334
Total noncurrent assets	81,068,056	96,879,306	88,228,812
Total assets	92,869,316	105,115,967	98,513,302
Liabilities			
Current liabilities:			
Accounts payable	411,977	1,027,723	562,011
Net reserve for losses and loss adjustment expenses	4,858,326	3,861,069	4,397,579
Net reserve for incurred but not reported losses and loss adjustment expenses	5,689,916	5,054,066	5,366,519
Unearned member premiums - Net	10,581,141	10,490,479	10,818,210
Dividends payable	38,690	31,378	-
Total current liabilities	21,580,050	20,464,715	21,144,319
Noncurrent liabilities:			
Net reserve for losses and loss adjustment expenses - Net of current portion	8,478,891	7,947,746	8,323,170
Net reserve for incurred but not reported losses and loss adjustment expenses - Net of current por	9,930,207	10,403,450	10,157,055
Total noncurrent liabilities	18,409,098	18,351,196	18,480,225
Total liabilities	39,989,148	38,815,911	39,624,544
Net Position - Unrestricted	\$ 52,880,168	\$ 66,300,056	\$ 58,888,758

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		
	2022	2021	2020
Operating Revenue			
Member premiums	\$ 25,097,141	\$ 24,358,787	\$ 23,690,404
Less reinsurance premiums expense	(8,548,409)	(8,377,121)	(7,679,502)
Net member premium earned	16,548,732	15,981,666	16,010,902
Operating Expenses			
Losses and loss adjustment expenses - Net of reinsurance	11,476,722	8,343,600	10,299,555
Service agent fee	4,588,445	4,342,167	4,448,890
Administrative expenses	449,049	340,099	396,829
Total operating expenses	16,514,216	13,025,866	15,145,274
Operating Income	34,516	2,955,800	865,628
Nonoperating Income (Expenses)			
Interest and dividend income	1,992,918	1,993,941	1,786,416
Realized and unrealized (loss) gains on investments	(11,739,481)	3,302,883	5,631,308
(Loss) Income from investment in NLC Mutual Insurance Company	(1,335,564)	723,249	773,514
Other income	310	1,602	21,499
Distributions to members	(2,372,587)	(1,566,177)	(1,528,214)
Net nonoperating (expenses) income	(13,454,404)	4,455,498	6,684,523
Change in Net Position	(13,419,888)	7,411,298	7,550,151
Net Position			
Beginning of year	66,300,056	58,888,758	51,338,607
End of year	\$ 52,880,168	\$ 66,300,056	\$ 58,888,758

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 decreased 5.7 percent over the past three years, from \$98.5 million to \$92.9 million. This decrease is primarily a result from decreases in the investment portfolio. The Pool's investment portfolio decreased 10.1 percent during the year, and 4.8 percent over the past 3 years. Additionally, the Pool experienced a decrease in the investment in NLC in the current year due to the poor market conditions affecting NLC's investment portfolio performance.
- The investment portfolio consists of a variety of fixed-income and equity securities. The fixed-income securities, representing 76.9 percent of the portfolio, range from Treasury and Agency type securities, AAA to BBB rated securities, to high yield corporate bonds.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

- Pool equity investments, representing 23.1 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 45.7 percent increase in premium receivables due to the timing of when invoices are sent and payments are received from members.
- Reinsurance receivables on paid claims increased 198.2 percent in 2022 compared to 2021. The year-end receivable represents amounts due from reinsurers for three auto no-fault, and eight property claims paid during 2022 and prior. The 2022 reinsured claim activity included a net increase of about \$1.6 million on 9 large, reinsured claims and collections of \$1,100,161 from reinsurers during the year.
- Prepaid expenses include the prepaid asset balance of \$488,334 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 decreased 17.7 percent for the year, at a value of \$6.2 million, which represents 3.6 percent of NLC Mutual's total members' equity.
- Total liabilities increased 0.9 percent since 2020, from \$39.6 million to \$40.0 million. This increase is the result of an increase in the net reserves for losses and loss adjustment expenses (case reserves) increased 4.9 percent. The net reserves for incurred but not reported losses increased 0.6 percent.
- Net position decreased 10.2 percent, from \$58.9 million in 2020 to \$52.9 million in 2022. The Pool's financial position has decreased primarily due to the increase in reserves and unfavorable investment market results.

Capital Assets and Debt Administration

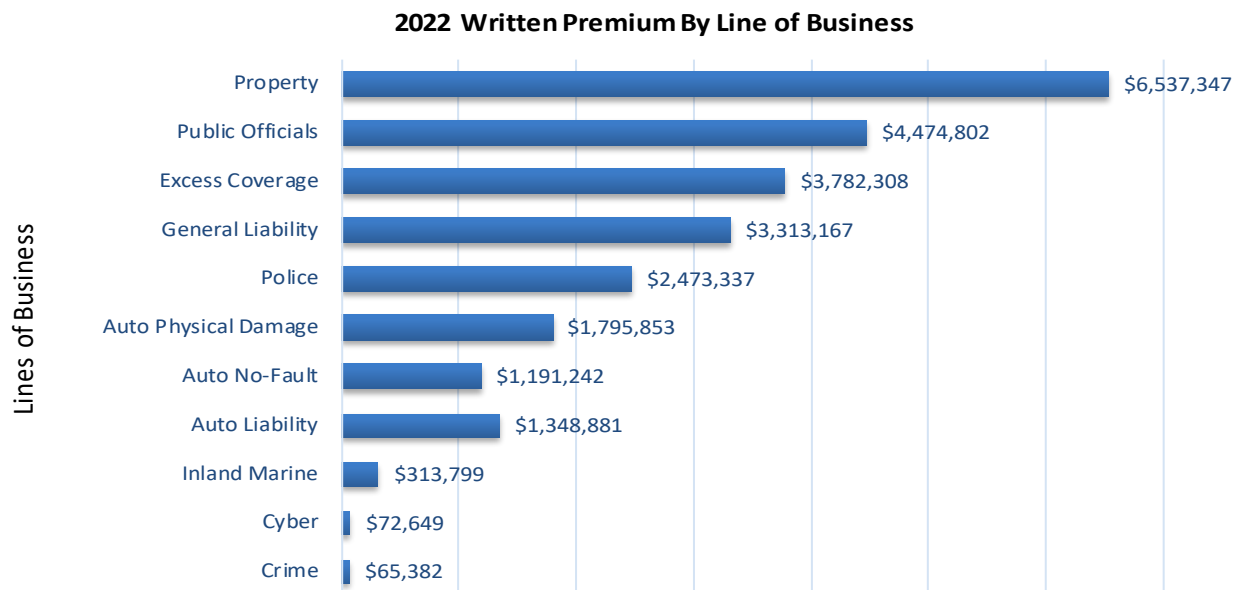
The Pool has no long-term debt. All material commitments and contingencies are disclosed in Note 7 to the financial statements. The Pool has no plans to encumber any debt or enter into additional commitments in the foreseeable future.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Member Premiums Earned

During 2022, the Pool provided insurance coverage to 437 members. Pool coverage includes property, public officials, excess coverage, general liability, police, auto, inland marine, crime, and cyber security.



Written premiums for 2022 totaled \$25.4 million, a 3.3 percent increase over 2021, and a 5.3 percent increase over 2020. 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, 2022, the Pool reported direct earned premiums of \$25.1 million compared to \$24.4 million and \$23.7 million for the years ended December 31, 2021 and 2020, 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 2022 were Everest Reinsurance Company (25%), Lloyds of London (25%), and National League of Cities (NLC) Mutual Insurance Company (50%).

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

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

Effective from 4/01/2022 - 3/31/2023

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%	48
	\$3,000,000 xs \$2,000,000 NLC Mutual 50% Everest Re 25% Lloyd's of London 25%	181
	\$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%	86
	\$500,000 Retention	437
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 \$3,000,000 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 \$3,000,000 Travelers Indemnity Company	
\$2,500,000 xs \$500,000 NLC Mutual Insurance Company	Boiler & Machinery \$100,000,000 xs MML Deductible XL Insurance America, Inc. AXA AL
\$250,000 xs \$MML Deductible \$500,000 reinsurance layer deductible NLC Mutual Insurance Company	
\$250,000 Deductible Per Occurrence	\$100,000 Deductible Per Occurrence

Reinsurance premiums expense is reported at \$8.5 million for 2022, \$8.4 million for 2021, and \$7.7 million for 2020. 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 for policies issued or renewed during the two-year period of 2021-2023. Annual MCCA assessment rates per vehicle have varied over the past three years ranging from \$100 for 2020-2021, down to \$86 for 2021-2023. 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 \$1.6 million during 2022, a 17.9 percent increase compared to 2021; and a 11.0 percent increase compared to 2020. The equity portfolio generated dividend income totaling \$0.6 million for 2022, \$0.8 million for 2021, and \$0.7 million for 2020, a 21 percent decrease from 2020 to 2022.

Net Change in the Fair Market Value of Investments

The Pool experienced a \$10.3 million decrease in the fair market value of investments in 2022, compared to the \$2.0 million increase in 2021 and the \$0.1 million increase in 2020. The portfolio generated a total negative return of 10.8 percent for 2022. The equity market ended the year down 18.4 percent, despite a strong end to the year with a positive return of 7.7 percent in the fourth quarter.

Michigan Municipal League Liability and Property Pool

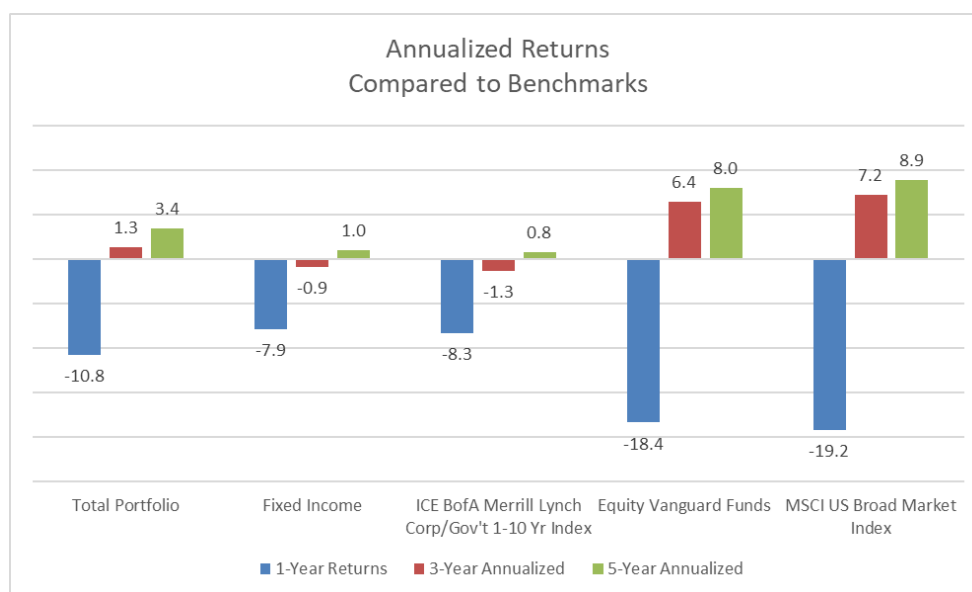
Management's Discussion and Analysis (Continued)

The fixed income allocation in the Pool's portfolio, comprising 76.9 percent of the total portfolio assets, returned (7.9) percent for the year, which outperformed the Bank of America Merrill Lynch Government/Credit 1-10 Year Index's return of (8.3) 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 1.0 percent and 1.2 percent over the last 5 and 10 years, respectively, compared to the benchmark's return of 0.8 percent and 1.0 percent for the same time periods.

The Pool's equity allocation, comprising 23.1 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 22.2 percent of the portfolio and returned (19.5) percent for 2022. The Vanguard International ETF represents 1.8 percent of the portfolio and returned a (6.9) percent in 2022.

The returns generated from the Pool's fixed-income and equity funds resulted in a total negative return of 10.8 percent for 2022, compared to a positive return of 6.0 percent for 2021, and a negative return of 9.9 percent for 2020.



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 3.6 percent share of NLC Mutual's equity income/loss 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 loss/income from NLC Mutual for 2022, 2021, and 2020 amounts to (\$1,335,564), \$723,249, and \$773,514, based on the equity values of \$6,226,383, \$7,561,947, and \$6,838,698 as of December 31, 2022, 2021, and 2020, respectively. NLC Mutual also distributed dividend income of \$171,459 during 2022, \$439,400 in 2021, and \$101,233 in 2020.

Michigan Municipal League Liability and Property Pool

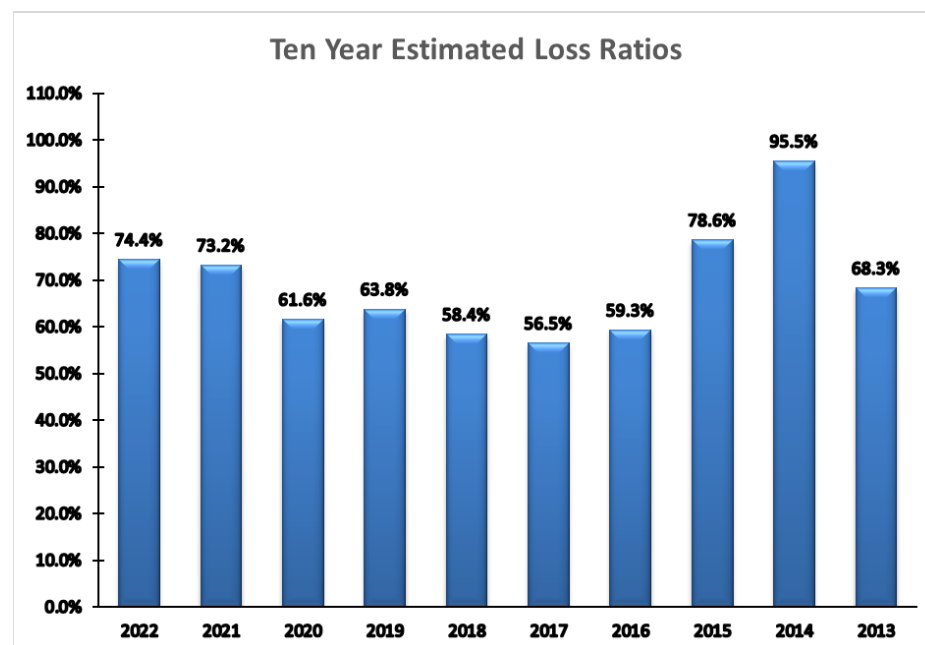
Management's Discussion and Analysis (Continued)

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 \$11.5 million for 2022, \$8.3 million for 2021, and \$10.3 million for 2020.

Loss ratios have averaged 69.0 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. When comparing loss ratios from the current year with the 2021 loss ratios. It appears that the total loss ratio is relatively consistent with the prior year. However, when comparing the loss ratios by line of coverage, the Pool has experienced more favorable activity in the auto liability and auto physical damage lines and less favorable activity in the general liability and property lines 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 \$1,550,720. 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 2022 unamortized balance is reported at \$488,334.

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 \$2,853,401.

Service agent fees also include bank charges, custodial fees, investment management, and advisory fees that total \$182,524 for 2022, a 0.3 percent decrease when compared to 2021, and a 10.8 percent increase when compared to 2020.

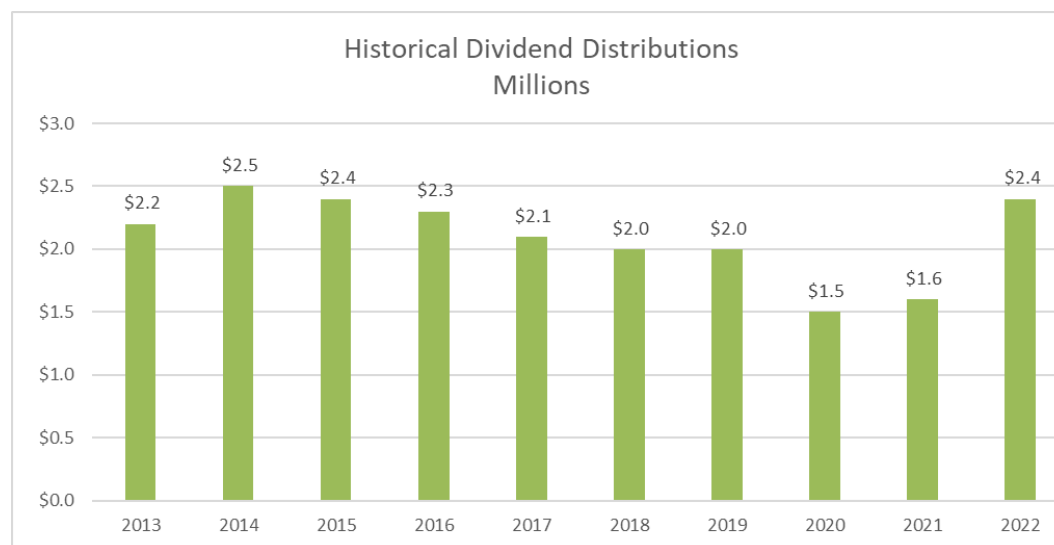
Administrative Expenses

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 \$449,049 for 2022 represent a 32.0 percent increase compared to 2021 and a 13.2 percent increase compared to 2020. Property appraisal fees, trustee expenses, legal fees, and audit fees increased during the year. The increase in the property appraisal fees is based on when the work is performed by the appraisal firm and the number of onsite visits performed. The increase in trustee expenses is due to conferences and meetings being in person, as opposed to virtual. Legal fees increased due to an amicus brief performed in the current year, as well as more in-person board meeting than in the prior year. The increase in the audit expense is due to the MCCA audit being performed during 2022. All other expenses experienced insignificant changes from the prior years.

Distributions to Members

Distributions to members amounted to \$2.4 million in 2022, \$1.6 million in 2021, and \$1.5 million in 2020. 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 Positive (Negative)
Member premiums earned	\$ 25,000,000	\$ 25,097,141	\$ 97,141
Less reinsurance premiums expense	(8,500,000)	(8,548,409)	(48,409)
Net member premiums earned	16,500,000	16,548,732	48,732
Investment income including change in fair value of investments and other income	2,455,000	(11,081,817)	(13,536,817)
Total revenue	18,955,000	5,466,915	(13,488,085)
Expenses:			
Loss and loss adjustment expenses incurred - Net of reinsurance	12,000,000	11,476,722	523,278
Service agent, marketing, and risk control fees	4,550,000	4,588,445	(38,445)
Administrative expenses	497,500	449,049	48,451
Distributions to members	2,450,000	2,372,587	77,413
Total expenses	19,497,500	18,886,803	610,697
Excess of expenses under revenue	<u>\$ (542,500)</u>	<u>\$ (13,419,888)</u>	<u>\$ (12,877,388)</u>

The following is an explanation of the significant variances of the budget to actual for 2022.

Earned premiums exceeded the 2022 budget parameter by 0.4 percent. The Pool gained ten and lost five members during the year, netting a net increase in written premiums of \$241,337. The Pool renewed 98.8 percent of the total Pool membership with the majority of members renewing premiums at a higher level, resulting in approximately \$0.5 million in additional premium. The policy of returning dividends to members following their 2022 renewals has helped to retain members within this competitive environment.

Reinsurance premiums were 0.6 percent higher than the budgeted parameters. The budget anticipated increased premium levels to which the reinsurance rates are applied, as well as increases in renewal rates. Actual liability reinsurance premium rates averaged a 2.9 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 2021-2022 MCCA final assessment came in at \$602,722, 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 came in below the budgeted parameter by about \$13.5 million. The Pool's portfolio decrease in value was due to poor market conditions throughout 2022, resulting in a decrease in the fair market value of investments of \$11.7 million and a decrease in the investment in NLC of \$1.3 million.

Overall, losses and loss adjustment expenses, net of reinsurance, were lower than the budget anticipated due to more favorable claim development than anticipated. Net claim payments increased during the year by 11.0 percent, the net change in case reserves increased by over 100 percent during the year, and the net IBNR and other reserve changes decreased by over 100 percent during the year, resulting in a 4.4 percent positive budget variance.

Michigan Municipal League Liability and Property Pool

Management's Discussion and Analysis (Continued)

Service agent, marketing, and risk control fees came in slightly over the budgeted amount. The MML service fee is adjusted annually for inflation. The AMT service fees came in slightly over budget due to changes in staffing at AMT. 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 actuarial fees and audit fees which were slightly over budget.

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 \$2.4 million dividend to current members, to be paid upon their renewal in the program throughout 2023. 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, 2022 and 2021	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 946,818	\$ 3,726,829
Investments at fair value (Notes 3 and 8)	8,057,943	2,879,737
Accounts receivable:		
Premiums	671,669	460,889
Reinsurance	918,292	463,353
Claim deductibles	233,459	104,666
Prepaid expenses and other assets:		
Prepaid expenses (Note 7)	20,000	20,000
Accrued interest income	386,970	296,622
Other current assets	566,109	284,565
Total current assets	11,801,260	8,236,661
Noncurrent assets:		
Investments at fair value (Notes 3 and 8)	74,373,339	88,829,025
Investment in NLC Mutual Insurance Company (Note 2)	6,226,383	7,561,947
Prepaid lease - Net of current portion (Note 7)	468,334	488,334
Total noncurrent assets	81,068,056	96,879,306
Total assets	92,869,316	105,115,967
Liabilities		
Current liabilities:		
Accounts payable	411,977	1,027,723
Current portion of loss and loss adjustment expense reserves (Note 4)	4,858,326	3,861,069
Current portion of incurred but not reported loss and loss adjustment expense reserves (Note 4)	5,689,916	5,054,066
Unearned member premiums - Net	10,581,141	10,490,479
Dividends payable	38,690	31,378
Total current liabilities	21,580,050	20,464,715
Noncurrent liabilities:		
Net reserve for losses and loss adjustment expenses - Net of current portion (Note 4)	8,478,891	7,947,746
Net reserve for incurred but not reported losses and loss adjustment expense (Note 4)	9,930,207	10,403,450
Total noncurrent liabilities	18,409,098	18,351,196
Total liabilities	39,989,148	38,815,911
Net Position - Unrestricted	\$ 52,880,168	\$ 66,300,056

Michigan Municipal League Liability and Property Pool

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Member premiums	\$ 25,097,141	\$ 24,358,787
Less reinsurance premiums expense	(8,548,409)	(8,377,121)
Net premium revenue earned	16,548,732	15,981,666
Operating Expenses		
Losses and loss adjustment expenses - Net of reinsurance (Note 4)	11,476,722	8,343,600
Service agent fees	4,588,445	4,342,167
Administrative expenses	449,049	340,099
Total operating expenses	16,514,216	13,025,866
Operating Income	34,516	2,955,800
Nonoperating Income (Expenses)		
Interest and dividend income	1,992,918	1,993,941
Realized and unrealized (losses) gains on investments	(11,739,481)	3,302,883
Distributions to members	(2,372,587)	(1,566,177)
Other income	310	1,602
(Loss) income from investment in NLC Mutual Insurance Company	(1,335,564)	723,249
Total nonoperating (expenses) income	(13,454,404)	4,455,498
Change in Net Position	(13,419,888)	7,411,298
Net Position - Beginning of year	66,300,056	58,888,758
Net Position - End of year	\$ 52,880,168	\$ 66,300,056

Michigan Municipal League Liability and Property Pool

Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Receipts from member premiums	\$ 25,062,834	\$ 24,324,791
Receipts from reinsurers	1,100,161	346,615
Receipts from claim deductibles	149,781	599,439
Payments on claims	(11,619,387)	(10,095,193)
Payments to reinsurers	(8,634,220)	(8,420,684)
Payments for expenses	(5,914,784)	(4,204,082)
Net cash provided by operating activities	144,385	2,550,886
Cash Flows Used in Noncapital Financing Activities - Distributions to members	(2,365,275)	(1,534,799)
Cash Flows from Investing Activities		
Receipts from interest income	1,902,570	1,967,074
Purchases of securities	(35,089,620)	(61,199,437)
Sales and maturities of securities	32,627,929	59,415,345
Net cash (used in) provided by investing activities	(559,121)	182,982
Net (Decrease) Increase in Cash and Cash Equivalents	(2,780,011)	1,199,069
Cash and Cash Equivalents - Beginning of year	3,726,829	2,527,760
Cash and Cash Equivalents - End of year	<u><u>\$ 946,818</u></u>	<u><u>\$ 3,726,829</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 34,516	\$ 2,955,800
Adjustments to reconcile operating income to net cash from operating activities:		
Premiums receivable	(210,780)	250,172
Claim deductibles receivable	(128,793)	372,576
Reinsurance receivables on paid claims	(454,939)	(200,123)
Prepaid expenses and other assets	(261,544)	12,472
Net reserve for losses and loss adjustment expenses	1,528,402	(911,934)
Net reserve for incurred but not reported losses and loss adjustment expenses	162,607	(66,058)
Unearned member premiums - Net	90,662	(327,731)
Accounts payable	(615,746)	465,712
Net cash provided by operating activities	<u><u>\$ 144,385</u></u>	<u><u>\$ 2,550,886</u></u>
Noncash Investing Activities - Net unrealized loss on investments	\$ 10,251,018	\$ 2,029,472

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2022 and 2021

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 437 and 431 members in the Pool at December 31, 2022 and 2021, respectively.

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, losses 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, 2022.

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, 2022 and 2021

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, 2022 and 2021, the Pool's investment in NLC Mutual was \$6,226,383 and \$7,561,947, respectively. There were no distributions received in 2022 and 2021.

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 claim liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claim 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 claim liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claim 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 claim 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 2022 and 2021.

Reinsurance

The Pool reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. The Pool remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance agreements.

Ceded reinsurance premiums are recognized on the same basis as the premiums are earned on the underlying insurance contracts.

Premium Deficiency Reserve

Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claim 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, 2022 and 2021.

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.

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Adoption of New Accounting Pronouncement

In 2022, the Pool adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 and outflows of resources based on the payment provisions of the contract. As a result of adoption, there were no changes to the statement of net position or statement of revenue, expenses, and changes in net position.

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, 2022 and 2021

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, 2022, the Pool had \$1,340,552 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, 2022, 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	\$ 27,562,912	3.77
U.S. government mortgage-backed securities	2,927,470	5.84
Corporate mortgage-backed securities	6,504,745	2.50
Corporate bonds	26,410,438	4.55
Total	<u>\$ 63,405,565</u>	

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	\$ 33,334,129	3.75
U.S. government mortgage-backed securities	2,564,964	2.50
Corporate mortgage-backed securities	1,776,113	3.19
Corporate bonds	30,561,622	5.31
Total	<u>\$ 68,236,828</u>	

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022, the credit quality ratings of debt securities (without regard to investment type) are as follows:

Rating	Fair Value	Quality Weightings
U.S. government	\$ 30,490,382	48.09
AAA	5,968,128	9.41
AA	4,710,009	7.43
A	9,855,129	15.54
BBB	12,381,917	19.53
Total	<u>\$ 63,405,565</u>	

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	20.76
Total	<u>\$ 68,236,828</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, 2022 and 2021.

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, 2022 and 2021

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, 2022, 2021, and 2020 (amounts are net of the effects of reinsurance):

	2022	2021	2020
Net losses and loss adjustment expenses - Beginning of fiscal year	\$ 27,266,331	\$ 28,244,323	\$ 27,838,754
Incurring losses and loss adjustment expenses:			
Provisions for insured events of the current fiscal year	14,039,406	14,854,067	14,222,980
Change in provision for insured events of prior fiscal years	(2,562,684)	(6,510,467)	(3,923,425)
Total incurred losses and loss adjustment expenses	11,476,722	8,343,600	10,299,555
Payments:			
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	3,558,043	4,352,628	2,781,793
Losses and loss adjustment expenses attributable to insured events of the prior fiscal year	6,227,670	4,968,964	7,112,193
Total payments	9,785,713	9,321,592	9,893,986
Net losses and loss adjustment expenses - End of year	\$ 28,957,340	\$ 27,266,331	\$ 28,244,323

The net loss and loss adjustment expense reserves are presented at present value using a discount rate of 2 percent for 2022, 2021, and 2020. The net loss and loss adjustment expense reserves were reduced by \$1,199,474, \$1,180,059, and \$955,436 at December 31, 2022, 2021, and 2020, respectively.

During 2022, 2021, and 2020, there was favorable development in incurred losses 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 \$1,440,000 and \$1,330,000 at December 31, 2022 and 2021, respectively, for amounts recoverable from reinsurers.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2022 and 2021

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	\$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	Individual claims in excess of the Pool's coverage up to \$15 million per occurrence
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	Individual claims in excess of the Pool's coverage up to \$250 million per occurrence
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	Individual claims in excess of the Pool's coverage up to \$100 million per occurrence
Cyber liability 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	Individual claims in excess of member deductibles. Coverage from \$100,000 up to \$1 million. Members must apply to purchase limits higher than \$100,000

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 \$1,470,000 and \$1,380,000 at December 31, 2022 and 2021, respectively.

Michigan Municipal League Liability and Property Pool

Notes to Financial Statements

December 31, 2022 and 2021

Note 5 - Reinsurance Agreements (Continued)

The following table summarizes the net impact of reinsurance arrangements on member contributions and losses and loss adjustment expenses incurred:

	2022	2021
Member premiums:		
Direct	\$ 25,097,141	\$ 24,358,787
Ceded	(8,548,409)	(8,377,121)
Net member premiums	<u>\$ 16,548,732</u>	<u>\$ 15,981,666</u>
Losses and loss adjustment expenses incurred	13,144,009	8,863,967
Reinsurance recoveries	(1,667,287)	(520,367)
Net losses and loss adjustment expenses incurred	<u>\$ 11,476,722</u>	<u>\$ 8,343,600</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 \$2,372,587 and \$1,566,177 as of December 31, 2022 and 2021, 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 \$1,551,000 and \$1,511,000 for 2022 and 2021, 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 agreement was \$20,000 in 2022 and 2021.

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, 2022 and 2021

Note 8 - Fair Value Measurements (Continued)

The Pool has the following recurring fair value measurements as of December 31, 2022 and 2021:

Assets Measured at Fair Value on a Recurring Basis December 31, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Debt securities:				
U.S. government securities	\$ -	\$ 27,562,912	\$ -	\$ 27,562,912
U.S. government mortgage-backed securities	-	2,927,470	-	2,927,470
Corporate mortgage-backed securities	-	6,504,745	-	6,504,745
Corporate bonds	-	26,410,438	-	26,410,438
Total debt securities	-	63,405,565	-	63,405,565
Equity securities	19,025,717	-	-	19,025,717
Total	\$ 19,025,717	\$ 63,405,565	\$ -	\$ 82,431,282
Assets Measured at Fair Value on a Recurring Basis December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant 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

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, 2022 and 2021 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, 2022

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, re-evaluation 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, 2022
(in thousands)

	Policy Year Ended December 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1.	Required contributions and investment income:										
	Earned	\$ 23,569	\$ 21,512	\$ 19,892	\$ 23,732	\$ 26,633	\$ 21,142	\$ 33,141	\$ 31,903	\$ 30,380	\$ 14,015
	Ceded	6,664	8,047	7,239	7,159	7,077	7,402	7,718	7,680	8,377	8,548
	Net	16,905	13,465	12,653	16,573	19,556	13,740	25,423	24,223	22,003	5,467
2.	Expenses other than allocated claim adjustment expenses	5,121	4,791	5,158	4,873	4,433	4,535	4,556	4,846	4,682	5,037
3.	Estimated claims and allocated claim adjustment expenses - End of policy year:										
	Incurred	11,016	14,241	11,486	10,866	13,089	13,701	13,805	14,782	14,854	15,107
	Ceded	820	3,198	1,417	991	2,125	1,729	974	559	-	1,068
	Net	10,196	11,043	10,069	9,875	10,964	11,972	12,831	14,223	14,854	14,039
4.	Cumulative paid claims and allocated claim adjustment expenses:										
	End of policy year	2,225	3,361	2,798	2,141	3,186	3,556	3,595	2,782	4,353	3,558
	One year later	3,648	4,873	4,404	3,587	4,281	5,083	5,906	5,096	7,218	-
	Two years later	5,078	6,966	6,217	5,231	5,795	6,527	7,185	6,212	-	-
	Three years later	6,488	8,259	7,975	6,832	6,790	6,798	8,212	-	-	-
	Four years later	8,671	9,051	9,396	8,326	7,068	7,475	-	-	-	-
	Five years later	9,055	9,946	10,002	8,687	7,273	-	-	-	-	-
	Six years later	9,285	10,208	10,220	8,795	-	-	-	-	-	-
	Seven years later	9,305	10,337	10,260	-	-	-	-	-	-	-
	Eight years later	9,456	10,386	-	-	-	-	-	-	-	-
	Nine years later	9,596	-	-	-	-	-	-	-	-	-
5.	Re-estimated ceded claims and expenses	3,130	4,365	3,454	720	1,866	1,553	1,245	1,259	100	1,068
6.	Re-estimated incurred claims and allocated claim adjustment expenses:										
	End of policy year	10,196	11,043	10,069	9,875	10,964	11,972	12,831	14,223	14,854	14,039
	One year later	8,760	10,416	10,509	9,765	9,817	12,076	13,733	12,544	15,033	-
	Two years later	8,447	10,710	10,877	9,670	9,824	10,421	11,932	11,466	-	-
	Three years later	8,933	9,842	11,532	10,286	8,905	8,941	11,022	-	-	-
	Four years later	9,897	10,441	12,080	9,911	8,039	8,762	-	-	-	-
	Five years later	10,125	10,545	10,505	9,908	7,917	-	-	-	-	-
	Six years later	9,999	10,469	10,375	9,369	-	-	-	-	-	-
	Seven years later	9,640	10,462	10,439	-	-	-	-	-	-	-
	Eight years later	9,601	10,483	-	-	-	-	-	-	-	-
	Nine years later	9,596	-	-	-	-	-	-	-	-	-
7.	Change in estimated incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	(600)	(560)	370	(506)	(3,047)	(3,210)	(1,809)	(2,757)	179	-

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

	2022			2021			2020		
	Liability	Property, Boiler, and Machinery	Total	Liability	Property, Boiler, and Machinery	Total	Liability	Property, Boiler, and Machinery	Total
Net Losses and Loss Adjustment Expenses - Beginning of fiscal year	\$ 22,791,839	\$ 4,474,492	\$ 27,266,331	\$ 26,707,149	\$ 1,537,174	\$ 28,244,323	\$ 27,493,601	\$ 345,153	\$ 27,838,754
Incurring losses and loss adjustment expenses:									
Provision for insured events of the current fiscal year	10,115,292	3,924,114	14,039,406	11,454,559	3,399,508	14,854,067	11,540,155	2,682,825	14,222,980
Change in provision for insured events of prior fiscal years	(6,482,789)	3,920,105	(2,562,684)	(8,933,352)	2,422,885	(6,510,467)	(4,962,065)	1,038,640	(3,923,425)
Total incurred losses and loss adjustment expenses	3,632,503	7,844,219	11,476,722	2,521,207	5,822,393	8,343,600	6,578,090	3,721,465	10,299,555
Payments - Net of reinsurance recoveries and member deductibles:									
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	1,767,648	1,790,395	3,558,043	2,368,049	1,984,579	4,352,628	1,364,155	1,417,638	2,781,793
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	4,260,978	1,966,692	6,227,670	4,068,468	900,496	4,968,964	6,000,387	1,111,806	7,112,193
Total payments	6,028,626	3,757,087	9,785,713	6,436,517	2,885,075	9,321,592	7,364,542	2,529,444	9,893,986
Net Losses and Loss Adjustment Expenses - End of fiscal year	\$ 20,395,716	\$ 8,561,624	\$ 28,957,340	\$ 22,791,839	\$ 4,474,492	\$ 27,266,331	\$ 26,707,149	\$ 1,537,174	\$ 28,244,323