

Minnesota FAIR Plan

Statutory Financial Statements Together with Independent Auditors' Report

December 31, 2021

MINNESOTA FAIR PLAN

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INDEPENDENT AUDITORS' REPORT

Governing Board of Directors
Minnesota FAIR Plan
Minneapolis, Minnesota

Opinions

We have audited the accompanying statutory financial statements of Minnesota Fair Plan (a nonprofit corporation), which comprise the statutory statement of admitted assets, liabilities, and surplus as of December 31, 2021 and 2020, and the related statutory statements of income and changes in surplus, and cash flows for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and surplus of Minnesota Fair Plan as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year then ended, in accordance with the financial reporting provisions of Department of Commerce of the State of Minnesota as described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Minnesota Fair Plan as of December 31, 2021 and 2020, or the results of its operations or its cash flows for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Minnesota Fair Plan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on the regulatory basis of accounting and our adverse opinion on U.S. generally accepted accounting principles.

Basis for Opinions (Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the financial statements are prepared by Minnesota Fair Plan on the basis of the financial reporting provisions of Department of Commerce of the State of Minnesota which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Department of Commerce of the State of Minnesota. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Department of Commerce of the State of Minnesota, 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.

Auditors' Responsibilities for the Audit 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 auditors' 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 an audit conducted in accordance with generally accepted auditing standards 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.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 Minnesota Fair Plan'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 Minnesota Fair Plan'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 audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Roseville, Minnesota
August 12, 2022

Olsen Thielens & Co., Ltd.

MINNESOTA FAIR PLAN

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND MEMBERS' EQUITY DECEMBER 31, 2021 AND 2020

ADMITTED ASSETS		
	<u>2021</u>	<u>2020</u>
Cash	<u>\$ 3,079,043</u>	<u>\$ 3,360,181</u>
 TOTAL ADMITTED ASSETS	 <u>\$ 3,079,043</u>	 <u>\$ 3,360,181</u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Unpaid Losses and Loss Adjustment Expenses	\$ 644,020	\$ 699,752
Unearned Premiums	1,201,493	1,226,620
Accounts Payable and Accrued Expenses	65,003	71,375
Total Liabilities	<u>1,910,516</u>	<u>1,997,747</u>
 MEMBERS' EQUITY	 <u>1,168,527</u>	 <u>1,362,434</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 3,079,043</u>	 <u>\$ 3,360,181</u>

The accompanying notes are an integral part of the statutory financial statements.

MINNESOTA FAIR PLAN

STATUTORY STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
UNDERWRITING INCOME:		
Premiums Earned	<u>\$ 2,999,870</u>	<u>\$ 3,214,887</u>
UNDERWRITING LOSSES AND EXPENSES:		
Losses and Loss Adjustment Expenses	<u>1,292,883</u>	1,319,086
Commissions	<u>191,071</u>	202,693
Other Underwriting Expenses	<u>1,701,942</u>	<u>1,740,784</u>
Total Underwriting Losses and Expenses	<u>3,185,896</u>	<u>3,262,563</u>
UNDERWRITING LOSS	<u>(186,026)</u>	(47,676)
OTHER INCOME	<u>23,830</u>	<u>23,912</u>
NET LOSS	<u>\$ (162,196)</u>	<u>\$ (23,764)</u>

The accompanying notes are an integral part of the statutory financial statements.

MINNESOTA FAIR PLAN

STATUTORY STATEMENTS OF CHANGES IN MEMBERS' EQUITY YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
BALANCE at Beginning of Year	\$ 1,362,434	\$ 1,314,771
Net Loss	(162,196)	(23,764)
Change in Non-Admitted Assets	<u>(31,711)</u>	<u>71,427</u>
BALANCE at End of Year	<u>\$ 1,168,527</u>	<u>\$ 1,362,434</u>

The accompanying notes are an integral part of the statutory financial statements.

MINNESOTA FAIR PLAN

STATUTORY STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Insurance Premiums Collected	\$ 2,974,758	\$ 3,072,442
Interest Received	23,830	23,912
Insurance Claims Paid, Net of Recoveries of \$1,402 and \$266	(1,257,831)	(1,025,978)
Loss Adjustment Expenses Paid	(90,784)	(92,284)
Commissions Paid to Agents and Brokers	(174,097)	(204,249)
Cash Paid to Suppliers and Employees	(1,725,303)	(1,795,244)
Net Cash Flows From Operating Activities	<u>(249,427)</u>	<u>(21,401)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Non-Admitted Assets	(31,711)	71,427
Net Cash Flows From Investing Activities	<u>(31,711)</u>	<u>71,427</u>
NET CHANGE IN CASH	(281,138)	50,026
CASH at Beginning of Year	<u>3,360,181</u>	<u>3,310,155</u>
CASH at End of Year	<u>\$ 3,079,043</u>	<u>\$ 3,360,181</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (162,196)	\$ (23,764)
Adjustments to Reconcile Net Loss to Net Cash		
Flows From Operating Activities:		
Change in:		
Unpaid Losses and Loss Adjustment Expenses	(55,732)	200,824
Unearned Premiums	(25,127)	(142,459)
Accounts Payable and Accrued Expenses	(6,372)	(56,002)
Net Cash Flows From Operating Activities	<u>\$ (249,427)</u>	<u>\$ (21,401)</u>

The accompanying notes are an integral part of the statutory financial statements.

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

The Minnesota FAIR Plan (the Plan) was established by the legislature of the State of Minnesota in accordance with the provisions of the Minnesota FAIR Plan Act of 1969. The purpose of the Plan is to provide limited property insurance coverage for eligible property owners when insurance is not available through voluntary markets. The membership of the Plan includes every property insurer authorized to write property insurance in the State of Minnesota. The Plan's Governing Board of Directors has the authority to assess all property insurance companies (hereinafter referred to as Members) that are licensed and write premiums in the State of Minnesota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan prepares its financial statements in accordance with accounting practices prescribed or permitted by the Department of Commerce of the State of Minnesota. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Statutory practices vary in certain respects from accounting principles generally accepted in the United States of America. The effects of such variances on the accompanying financial statements have not been determined. However, these differences are presumed to be material. The most significant variances are the charging of acquisition costs (principally commissions and premium taxes) to operations as incurred rather than ratably as the related premiums are earned, and the designation of certain assets as non-admitted for financial statement purposes.

Accounting Estimates

The preparation of the financial statements in conformity with statutory practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant area which requires the use of management's estimates is unpaid losses and loss adjustment expenses.

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through August 12, 2022, the date the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure in the financial statements.

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unpaid Losses and Loss Adjustment Expenses

Insurance losses and related adjustment expenses are charged to operations as incurred. The liability for unpaid losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liabilities may exceed or be less than the amounts provided. The methods for making the estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current operations.

Taxes

The Plan pays, on behalf of its Members, premium taxes to the state of Minnesota. The Plan is a nonprofit organization exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code, and from state income taxes under Section 290.05 of the Minnesota statutes.

Non-Admitted Assets

Certain assets, primarily furniture and equipment, purchased computer licenses, hardware and software (exceeding 3% of admitted assets), prepaid expenses and prepaid pension costs are designated as “non-admitted assets”. The net change in these assets is reflected directly in members’ equity. The aggregate net book value of these non-admitted assets was \$522,416 and \$490,705 as of December 31, 2021 and 2020, respectively.

Assessments

When made, member assessments are reflected in the accompanying statutory statements of changes in members’ equity and represent amounts approved by the Governing Board of Directors and billed to the Members during the year. As defined by state statute, assessments are allocated to the Members based upon each Member’s pro rata share of total premiums written in the state of Minnesota for selected lines of business two years prior to the year of assessment. Assessments, when necessary, are used to fund the ongoing operations of the Plan. There were no member assessments in either 2021 and 2020.

Premiums

Premiums are earned on a pro rata basis over the term of the policies. Premiums applicable to the unexpired terms of the policies in force are reported as “unearned premiums” at December 31, 2021 and 2020.

Policy Acquisition Costs

Commissions and other acquisition costs related to premiums written are charged to operations when the premiums are paid by the policyholder.

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Plan cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption from this pandemic may impact the Plan's operations and financial statements.

NOTE 3 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance at Beginning of Year	<u>\$ 699,752</u>	<u>\$ 498,928</u>
Incurred During the Year:		
Losses	<u>1,196,045</u>	<u>1,216,599</u>
Loss Adjustment Expenses	<u>96,838</u>	<u>102,487</u>
Total Incurred	<u>1,292,883</u>	<u>1,319,086</u>
Paid During the Year:		
Losses	<u>1,257,831</u>	<u>1,025,978</u>
Loss Adjustment Expenses	<u>90,784</u>	<u>92,284</u>
Total Paid	<u>1,348,615</u>	<u>1,118,262</u>
Balance at End of Year	<u>\$ 644,020</u>	<u>\$ 699,752</u>

NOTE 4 - MEMBERS' EQUITY

The members' equity represents the accumulated results from operations and assessments and the effects of changes in non-admitted assets through December 31, 2021. No distributions have been made to the members since the inception of the Plan.

NOTE 5 - RETIREMENT PLANS

The Plan is a participating employer of the Pension Plan of Insurance Organizations (PPIO), a multi-employer defined benefit pension plan which covers all eligible employees.

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 5 - RETIREMENT PLANS (Continued)

Information with respect to the Plan's participation in this plan for the years ended December 31, 2021 and 2020 is as follows:

Change in Plan Assets, Obligations and Funded Status

	<u>2021</u>	<u>2020</u>
Pension Benefits:		
Benefit Obligation at Beginning of Year	\$ 4,279,388	\$ 4,038,512
Service Cost	85,140	73,409
Interest Cost	117,918	130,953
Contributions by Plan Participants	—	—
Actuarial (Gain) Loss	(27,814)	220,526
Benefits Paid	(191,337)	(184,012)
Plan Amendments	—	—
Benefit Obligation at End of Year	<u>\$ 4,263,295</u>	<u>\$ 4,279,388</u>
	<u>2021</u>	<u>2020</u>
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 3,897,541	\$ 3,577,401
Actual Return on Plan Assets	256,637	434,152
Employer Contributions	160,610	70,000
Contributions by Plan Participants	—	—
Benefits Paid	(191,337)	(184,012)
Fair Value of Plan Assets at End of Year	<u>\$ 4,123,451</u>	<u>\$ 3,897,541</u>
	<u>2021</u>	<u>2020</u>
Fund Status:		
Prepaid Benefit Costs	\$ 564,459	\$ 719,127
Overfunded Plan Assets	—	—
Liability for Pension Benefits	(139,844)	(381,847)
Total Assets (Nonadmitted)	<u>\$ (424,615)</u>	<u>\$ (337,280)</u>
	<u>2021</u>	<u>2020</u>
Net Period Benefit Cost:		
Service Cost	\$ 85,140	\$ 73,409
Interest Cost	117,918	130,953
Expected Return on Plan Assets	(174,705)	(175,713)
Gains and Losses	31,461	53,452
Prior Service Cost or Credit	13,461	13,461
Professional Fees	3,000	3,000
Benefit Cost Recognized for the Year in the Statements of Operations - Statutory Basis	<u>\$ 76,275</u>	<u>\$ 98,562</u>

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 5 - RETIREMENT PLANS (Continued)

Effect on Members Equity

	<u>2021</u>	<u>2020</u>
Amounts in Members' Equity Recognized as Components of		
Net Periodic Benefit Cost:		
Items Not Yet Recognized as a Component of		
Net Periodic Cost - Prior Year	\$ 719,127	\$ 823,953
Net Prior Service Cost Arising During the Period	—	—
Net Prior Service Cost Recognized	(13,461)	(13,461)
Net Gain and Loss Arising During the Period	(31,461)	(37,913)
Net Gain and Loss Recognized	<u>(109,746)</u>	<u>(53,452)</u>
Items Not Yet Recognized as a Component of		
Net Periodic Cost - Current Year	<u>\$ 564,459</u>	<u>\$ 719,127</u>
Amounts in Members' Equity that Have Not Yet Been Recognized as		
Components of Net Periodic Benefit Cost:		
Net Prior Service Cost	\$ 1,645	\$ 15,106
Net Recognized Gains and Losses	<u>562,814</u>	<u>704,021</u>
	<u>\$ 564,459</u>	<u>\$ 719,127</u>

Assumptions

	<u>2021</u>	<u>2020</u>
Weighted-Average Assumptions Used to Determine Benefit		
Obligations at End of Year:		
Discount Rate	<u>2.75%</u>	<u>2.75%</u>
Rate of Compensation Increase	<u>3.00%</u>	<u>3.00%</u>
Weighted-Average Assumptions Used to Determine Net Periodic		
Benefit Costs at Beginning of Year:		
Discount Rate	<u>3.00%</u>	<u>3.25%</u>
Average Rate of Compensation Increase	<u>3.00%</u>	<u>3.00%</u>
Expected Return on Plan Assets	<u>4.50%</u>	<u>5.00%</u>

Plan Assets

The Plan assets by asset category at December 31 are as follow:

	<u>2021</u>	<u>2020</u>
Equity Securities	37.00%	36.90%
Debt Securities	57.00	58.20
Real Estate	5.20	4.40
Cash	<u>0.80</u>	<u>0.50</u>
	<u>100.00%</u>	<u>100.00%</u>

The target asset allocations are 40% for equity securities and 60% for debt securities.

MINNESOTA FAIR PLAN

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 5 - RETIREMENT PLANS (Continued)

Cash Flows

Expected future benefit payments are as follows:

2022	\$ 198,931
2023	204,790
2024	210,143
2025	215,216
2026	219,547
2027 - 2031	<u>1,176,751</u>
	<u>\$ 2,225,378</u>

Employer contributions expected to be paid during year ended December 31, 2022 are \$137,974.

The Plan also participates in a multi-employer 401(k) savings plan which is available to all eligible employees. Employees may make before-tax and/or after-tax contributions of not less than 1% and not more than 75% of their annual compensation, as permitted by law. The Plan matches 100% of the first 1% of employees' contributions and 70% of the next 5% of employees' contributions. The Plan's contribution is made each pay period. The Plan recognized \$21,950 and \$19,603 in expense relating to this plan during the years ended December 31, 2021 and 2020, respectively.

NOTE 6 - COMMITMENTS

The Plan had a lease for office space that expired in August 2021. In addition to rent, the Plan paid maintenance and operating costs on the leased office space.

In 2021, the Plan signed a lease for office space beginning September 1, 2021 and expiring March 31, 2030. In addition to rent, the Plan paid for maintenance and operating costs on the leased office space.

The Plan has an agreement with Innovative Computer Systems, Inc. to provide operations software license, maintenance and support, and implementation of Finys through October 2022.

Rent and software maintenance expense and payments due over the remaining terms are as follows:

	<u>Real Estate</u>	<u>Software</u>	<u>Total</u>
Expense:			
2021	\$ 79,210	\$ 60,000	\$ 139,210
2020	101,313	60,000	161,313
Commitments:			
2022	\$ 25,008	\$ 50,000	\$ 75,008
2023	33,735	—	33,735
2024	34,256	—	34,256
2025	34,777	—	34,777
2026	35,298	—	35,298
Later Years	<u>118,267</u>	<u>—</u>	<u>118,267</u>
Total	<u>\$281,340</u>	<u>\$ 50,000</u>	<u>\$331,340</u>