

# Minnesota FAIR Plan

## Statutory Financial Statements Together with Independent Auditors' Report

December 31, 2023

# 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 members' equity (deficit) as of December 31, 2023 and 2022, and the related statutory statements of operations and changes in members' equity (deficit), 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 above present fairly, in all material respects, the admitted assets, liabilities, and members' equity (deficit) of Minnesota FAIR Plan as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the year then ended, in accordance with the financial reporting provisions of the 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, 2023 and 2022, 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 the 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 the 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 the 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  
June 17, 2024

*Olsen Thielen + Co., Ltd.*

**MINNESOTA FAIR PLAN**  
**STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES**  
**AND MEMBERS' EQUITY (DEFICIT)**  
**DECEMBER 31, 2023 AND 2022**

ADMITTED ASSETS		
	<u>2023</u>	<u>2022</u>
Cash	<u>\$ 1,833,374</u>	<u>\$ 2,205,893</u>
<b>TOTAL ADMITTED ASSETS</b>	<b><u>\$ 1,833,374</u></b>	<b><u>\$ 2,205,893</u></b>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Unpaid Losses and Loss Adjustment Expenses	\$ 618,600	\$ 331,600
Unearned Premiums	1,410,511	1,174,486
Accounts Payable and Accrued Expenses	<u>121,297</u>	<u>100,898</u>
Total Liabilities	<u>2,150,408</u>	<u>1,606,984</u>
MEMBERS' EQUITY(DEFICIT)	<u>(317,034)</u>	<u>598,909</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY(DEFICIT)</b>	<b><u>\$ 1,833,374</u></b>	<b><u>\$ 2,205,893</u></b>

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

## MINNESOTA FAIR PLAN

### STATUTORY STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2023 AND 2022

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	<u>2023</u>	<u>2022</u>
UNDERWRITING INCOME:		
Premiums Earned	<u>\$ 3,231,015</u>	<u>\$ 2,980,678</u>
UNDERWRITING LOSSES AND EXPENSES:		
Losses and Loss Adjustment Expenses	<u>2,248,625</u>	1,796,289
Commissions	<u>230,441</u>	192,591
Other Underwriting Expenses	<u>1,657,915</u>	<u>1,512,233</u>
Total Underwriting Losses and Expenses	<u>4,136,981</u>	<u>3,501,113</u>
UNDERWRITING LOSS	<u>(905,966)</u>	(520,435)
OTHER INCOME	<u>53,682</u>	<u>15,361</u>
NET LOSS	<u>\$ (852,284)</u>	<u>\$ (505,074)</u>

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

## MINNESOTA FAIR PLAN

### STATUTORY STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT) YEARS ENDED DECEMBER 31, 2023 AND 2022

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	<u>2023</u>	<u>2022</u>
BALANCE at Beginning of Year	\$ 598,909	\$ 1,168,527
Net Loss	(852,284)	(505,074)
Change in Non-Admitted Assets	<u>(63,659)</u>	<u>(64,544)</u>
BALANCE at End of Year	<u>\$ (317,034)</u>	<u>\$ 598,909</u>

## MINNESOTA FAIR PLAN

### STATUTORY STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Insurance Premiums Collected	\$ 3,467,056	\$ 2,953,678
Interest Received	53,682	15,361
Insurance Claims Paid, Net of Recoveries of \$221 and \$1,402	(1,848,575)	(1,955,354)
Loss Adjustment Expenses Paid	(113,050)	(153,355)
Commissions Paid to Agents and Brokers	(212,390)	(176,410)
Cash Paid to Suppliers and Employees	(1,655,583)	(1,492,526)
Net Cash Flows From Operating Activities	(308,860)	(808,606)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Non-Admitted Assets	(63,659)	(64,544)
Net Cash Flows From Investing Activities	(63,659)	(64,544)
NET CHANGE IN CASH	(372,519)	(873,150)
CASH at Beginning of Year	2,205,893	3,079,043
CASH at End of Year	\$ 1,833,374	\$ 2,205,893
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (852,284)	\$ (505,074)
Adjustments to Reconcile Net Loss to Net Cash		
Flows From Operating Activities:		
Change in:		
Unpaid Losses and Loss Adjustment Expenses	287,000	(312,420)
Unearned Premiums	236,025	(27,007)
Accounts Payable and Accrued Expenses	20,399	35,895
Net Cash Flows From Operating Activities	\$ (308,860)	\$ (808,606)

# MINNESOTA FAIR PLAN

## NOTES TO STATUTORY FINANCIAL STATEMENTS

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### 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 are 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 June 17, 2024, the date the financial statements were available to be issued.

# MINNESOTA FAIR PLAN

## NOTES TO STATUTORY FINANCIAL STATEMENTS

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### 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, 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 \$650,619 and \$586,960 as of December 31, 2023 and 2022, 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 2023 and 2022.

#### **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, 2023 and 2022.

#### **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 3 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2023 and 2022 are as follows:

	<b>2023</b>	2022
Balance at Beginning of Year	<b>\$ 331,600</b>	\$ 644,020
Incurring During the Year:		
Losses	<b>1,887,675</b>	1,664,291
Loss Adjustment Expenses	<b>360,950</b>	131,998
Total Incurred	<b>2,248,625</b>	1,796,289
Paid During the Year:		
Losses	<b>1,848,575</b>	1,955,354
Loss Adjustment Expenses	<b>113,050</b>	153,355
Total Paid	<b>1,961,625</b>	2,108,709
Balance at End of Year	<b>\$ 618,600</b>	\$ 331,600

#### NOTE 4 - LINE OF CREDIT

In 2023, the Organization obtained a loan agreement with Bremer Bank, N.A. which enables the Organization to borrow up to \$500,000 at 2.5% above the prevailing secured overnight financing rate published by CME Group Benchmarks Administration Limited. The loan is secured by substantially all organization assets. No balance was outstanding on this loan at year-end.

#### NOTE 5 - 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, 2023. No distributions have been made to the members since the inception of the Plan.

#### NOTE 6 - 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.

Information with respect to the Plan's participation in this plan for the years ended December 31, 2023 and 2022 is as follows:

	<b>2023</b>	2022
Pension Benefits:		
Benefit Obligation at Beginning of Year	<b>\$ 3,184,571</b>	\$ 4,263,295
Service Cost	<b>45,359</b>	77,318
Interest Cost	<b>169,368</b>	123,411
Contributions by Plan Participants	<b>—</b>	—
Actuarial (Gain) Loss	<b>82,433</b>	(1,073,410)
Benefits Paid	<b>(201,347)</b>	(206,043)
Plan Amendments	<b>183,855</b>	—
Benefit Obligation at End of Year	<b>\$ 3,464,239</b>	\$ 3,184,571

## MINNESOTA FAIR PLAN

### NOTES TO STATUTORY FINANCIAL STATEMENTS

#### NOTE 6 - RETIREMENT PLANS (Continued)

##### Change in Plan Assets, Obligations and Funded Status

	2023	2022
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 3,190,228	\$ 4,123,451
Actual Return on Plan Assets	338,867	(871,180)
Employer Contributions	84,000	144,000
Contributions by Plan Participants	-	-
Benefits Paid	(201,347)	(206,043)
Fair Value of Plan Assets at End of Year	\$ 3,411,748	\$ 3,190,228

	2023	2022
Fund Status:		
Prepaid Benefit Costs	\$ 421,615	\$ 536,806
Overfunded Plan Assets	-	-
Net Overfunded Plan Asset (Liability for Pension Benefits)	(52,491)	5,657
Total Assets (Nonadmitted)	\$ (369,124)	\$ (542,463)

	2023	2022
Net Period Benefit Cost:		
Service Cost	\$ 45,359	\$ 77,318
Interest Cost	169,368	123,411
Expected Return on Plan Assets	(161,477)	(183,848)
Gains and Losses	-	1,645
Prior Service Cost or Credit	20,234	7,626
Professional Fees	3,500	3,000
Benefit Cost Recognized for the Year in the Statements of Operations - Statutory Basis	\$ 76,984	\$ 29,152

##### Effect on Members Equity

	2023	2022
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	\$ 536,806	\$ 564,459
Net Prior Service Cost Arising During the Period	-	-
Net Prior Service Cost Recognized	-	(1,645)
Net Loss Arising During the Period	(20,234)	(7,626)
Net Loss Recognized	(94,957)	(18,382)
Items Not Yet Recognized as a Component of Net Periodic Cost - Current Year	\$ 421,615	\$ 536,806
Amounts in Members' Equity that Have Not Yet Been Recognized as Components of Net Periodic Benefit Cost:		
Net Prior Service Cost	\$ -	\$ -
Net Recognized Gains and Losses	421,615	536,806
	\$ 421,615	\$ 536,806

## MINNESOTA FAIR PLAN

### NOTES TO STATUTORY FINANCIAL STATEMENTS

#### NOTE 6 - RETIREMENT PLANS (Continued)

##### Assumptions

	<b>2023</b>	2022
Weighted-Average Assumptions Used to Determine Benefit Obligations at End of Year:		
Discount Rate	<u><b>5.50%</b></u>	<u>3.00%</u>
Rate of Compensation Increase	<u><b>4.00%</b></u>	<u>3.00%</u>
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Costs at Beginning of Year:		
Discount Rate	<u><b>5.25%</b></u>	<u>5.50%</u>
Average Rate of Compensation Increase	<u><b>4.00%</b></u>	<u>4.00%</u>
Expected Return on Plan Assets	<u><b>5.25%</b></u>	<u>4.50%</u>

##### Plan Assets

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

	<b>2023</b>	2022
Equity Securities	<b>36.70%</b>	38.60%
Debt Securities	<b>58.00</b>	55.70
Real Estate	<b>4.80</b>	4.80
Cash	<u><b>0.50</b></u>	<u>0.90</u>
	<u><b>100.00%</b></u>	<u>100.00%</u>

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

##### Cash Flows

Expected future benefit payments are as follows:

2024	\$ 206,117
2025	212,288
2026	216,250
2027	220,370
2028	227,215
2029 - 2033	<u>1,212,904</u>
	<u><b>\$ 2,295,144</b></u>

Employer contributions expected to be paid during year ended December 31, 2024, are \$108,000.

## MINNESOTA FAIR PLAN

### NOTES TO STATUTORY FINANCIAL STATEMENTS

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#### NOTE 6 - RETIREMENT PLANS (Continued)

The adoption agreement was amended to move to a 'high' formula for active employees for benefits earned on or after January 1, 2022, and added a 2% annual post-retirement cost of living adjustment for active employees at the later of their retirement date or age 65. These changes were adopted in 2023 and were reflected in the December 31, 2023, projected benefit obligation.

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 matched 100% of the first 6% in 2023. In 2022, the Plan matched 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 \$28,762 and \$21,746 in expense relating to this plan during the years ended December 31, 2023 and 2022, respectively.

#### NOTE 7 - COMMITMENTS

The Plan has a lease for office space 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 of Finys through October 2027.

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

	<u>Real Estate</u>	<u>Software</u>	<u>Total</u>
Expense:			
<b>2023</b>	<b>\$ 75,186</b>	<b>\$ 128,894</b>	<b>\$ 204,080</b>
2022	46,705	60,000	106,705
Commitments:			
2024	\$ 34,256	\$ 128,894	\$ 163,150
2025	34,777	128,894	163,671
2026	35,298	128,894	164,192
2027	35,819	107,412	143,230
2028	36,340	-	36,340
Later Years	46,108	-	46,108
Total	<u>\$ 222,597</u>	<u>\$ 494,094</u>	<u>\$ 716,691</u>