

# **National Alliance of Nonprofits for Insurance, Inc.**

## **Audited Financial Statements**

*Years ended December 31, 2022 and 2021  
with Report of Independent Auditors*

National Alliance of Nonprofits for Insurance, Inc.

Audited Financial Statements

Years ended December 31, 2022 and 2021

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## Report of Independent Auditors

Audit Committee of the Board of Directors  
National Alliance of Nonprofits for Insurance, Inc.

### **Opinion**

We have audited the financial statements of National Alliance of Nonprofits for Insurance, Inc. (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of comprehensive income, changes in total equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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 Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor's 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 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 an audit 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.

In performing an audit in accordance with GAAS, 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 the Company'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 Company'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.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the disclosures about short-duration insurance contracts, including incurred and cumulative paid losses and allocated loss adjustment expenses, net of reinsurance and average annual percentage payout of incurred losses by age, net of reinsurance, on pages 20 - 22 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 Financial Accounting Standards Board, who 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 supplementary 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.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the typed name and address.

Raleigh, North Carolina  
March 15, 2023

National Alliance of Nonprofits for Insurance, Inc.

Balance Sheets

As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,993,200	\$ 3,840,591
Investments in debt securities	14,625,054	15,814,689
Premium receivable	8,258,745	8,455,912
Interest receivable	93,953	71,495
Receivable from affiliates	47,295	-
Reinsurance recoverable	2,309,656	1,670,481
Prepaid reinsurance premium	487,387	449,511
Deferred acquisition costs	<u>1,977,585</u>	<u>1,773,658</u>
Total assets	<u>\$ 31,792,875</u>	<u>\$ 32,076,337</u>
<b>Liabilities and Total Equity</b>		
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 2,978,278	\$ 2,495,540
Reinsurance payable on paid loss and loss adjustment expenses	2,011,608	1,494,182
Unearned premium	7,168,420	6,443,627
Reinsurance payable	382,877	302,210
Payable to affiliates	-	49,906
Accounts payable and other accrued liabilities	<u>159,328</u>	<u>897,918</u>
Total liabilities	12,700,511	11,683,383
<b>Total Equity</b>		
Accumulated earnings	20,428,192	20,363,687
Accumulated other comprehensive (loss) income	<u>(1,335,828)</u>	<u>29,267</u>
Total equity	<u>19,092,364</u>	<u>20,392,954</u>
Total liabilities and equity	<u>\$ 31,792,875</u>	<u>\$ 32,076,337</u>

The accompanying notes are an integral part of these financial statements

National Alliance of Nonprofits for Insurance, Inc.

Statements of Comprehensive Income

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Revenues</b>		
Gross written premium	\$ 15,002,864	\$ 13,445,680
Ceded premium	<u>(1,027,392)</u>	<u>(960,803)</u>
Net written premium	13,975,472	12,484,877
Change in unearned premium, net	<u>(686,917)</u>	<u>(814,152)</u>
Net earned premium	13,288,555	11,670,725
Net investment income	239,946	232,831
Net investment (loss) gain on securities	(45,662)	128,161
Other income	<u>26,615</u>	<u>3,807</u>
Total revenues	13,509,454	12,035,524
<b>Expenses</b>		
Losses and loss adjustment expenses, net	9,078,287	6,066,929
Commission expense, net	3,911,374	3,455,001
Management fee	278,000	278,000
Other expenses	<u>177,288</u>	<u>117,539</u>
Total expenses	<u>13,444,949</u>	<u>9,917,469</u>
Net income	64,505	2,118,055
<b>Other comprehensive loss</b>		
Net unrealized holding losses arising during year	(1,410,757)	(355,962)
Reclassification adjustment for net realized losses (gains) included in net income	<u>45,662</u>	<u>(128,161)</u>
Other comprehensive loss	<u>(1,365,095)</u>	<u>(484,123)</u>
Comprehensive (loss) income	<u>\$ (1,300,590)</u>	<u>\$ 1,633,932</u>

*The accompanying notes are an integral part of these financial statements*

National Alliance of Nonprofits for Insurance, Inc.

Statements of Changes in Total Equity

Years Ended December 31, 2022 and 2021

	<u>Accumulated Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance as of January 1, 2021	\$ 18,245,632	\$ 513,390	\$ 18,759,022
Net income	2,118,055	-	2,118,055
Other comprehensive loss	<u>-</u>	<u>(484,123)</u>	<u>(484,123)</u>
Balance as of December 31, 2021	20,363,687	29,267	20,392,954
Net income	64,505	-	64,505
Other comprehensive loss	<u>-</u>	<u>(1,365,095)</u>	<u>(1,365,095)</u>
Balance as of December 31, 2022	<u>\$ 20,428,192</u>	<u>\$ (1,335,828)</u>	<u>\$ 19,092,364</u>

*The accompanying notes are an integral part of these financial statements*

National Alliance of Nonprofits for Insurance, Inc.

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 64,505	\$ 2,118,055
Adj. to reconcile net income to net cash from operating activities		
Net investment loss (gain) on securities	45,662	(128,161)
Amortization of premium of debt securities	37,881	52,474
Changes in operating assets and liabilities		
Premium receivable	197,167	(765,003)
Interest receivable	(22,458)	8,461
Receivable from affiliates	(47,295)	-
Reinsurance recoverable	(639,175)	589,279
Prepaid reinsurance premium	(37,876)	(18,877)
Deferred acquisition costs	(203,927)	(225,887)
Loss and loss adjustment expense reserves	482,738	(1,171,694)
Reinsurance payable on paid loss and loss adj. expenses	517,426	762,349
Unearned premium	724,793	833,029
Reinsurance payable	80,667	92,737
Payable to affiliates	(49,906)	(67,315)
Accounts payable and other accrued liabilities	<u>(738,590)</u>	<u>495,671</u>
Net cash flows from operating activities	411,612	2,575,118
<b>Cash flows from investing activities</b>		
Purchase of investments	(3,867,127)	(8,276,745)
Proceeds from sales and maturities of investments	<u>3,608,124</u>	<u>7,593,498</u>
Net cash flows used in investing activities	<u>(259,003)</u>	<u>(683,247)</u>
Net change in cash and cash equivalents	152,609	1,891,871
Cash and cash equivalents, beginning of year	<u>3,840,591</u>	<u>1,948,720</u>
Cash and cash equivalents, end of year	<u>\$ 3,993,200</u>	<u>\$ 3,840,591</u>

*The accompanying notes are an integral part of these financial statements*



# National Alliance of Nonprofits for Insurance, Inc.

## Notes to Financial Statements

Years ended December 31, 2022 and 2021

### **Note 1 - Organization**

National Alliance of Nonprofits for Insurance, Inc. (the Company) is a nonprofit organization incorporated in 1999 in the State of Vermont. The Company operates as a captive insurance company pursuant to authorization under Section 6002, Vermont Statutes Annotated. The Company is subject to the rules, regulation and supervision of the Vermont Department of Financial Regulation (the Department). The Bill & Melinda Gates Foundation and the David and Lucile Packard Foundation provided initial capital contributions of \$10 million to the Company and its affiliates, of which \$8 million initially was allocated to the Company. In 2003, 2005 and 2015, contributed capital was reduced to \$6 million, \$4 million and \$0, respectively after receiving approval from the Department to transfer \$2 million, \$2 million and \$4 million, respectively of capital in each of those years from the Company to Alliance of Nonprofits for Insurance, Risk Retention Group, Inc. (ANI).

The Company is a member of the Nonprofits Insurance Alliance (NIA), which consists of nonprofit companies whose primary activities include serving 501(c)(3) tax-exempt nonprofit organizations by providing a source of liability insurance coverage tailored to the specialized needs of the nonprofit sector, and assisting these organizations to develop and implement successful loss control and risk management programs. NIA includes the Company, Nonprofits Insurance Alliance of California, Inc. (NIAC), ANI, Alliance Member Services, Inc. (AMS), and AMS Insurance Services, Inc. (AMSIS).

#### *Property Business Assumed*

The Company reinsures, through quota share assumption, auto physical damage and business property risks. The following describes property business assumed for policy years 2022 and 2021:

- With regard to auto physical damage risks, the Company assumes a 50% quota share from NIAC and also assumes a 100% quota share from an unaffiliated carrier who has fronted coverage for ANI insureds.
- With regard to business property risks, the Company participates in a quota share reinsurance program with an unaffiliated carrier who has fronted coverage for ANI insureds. The Company assumes a 10% quota share for incurred losses up to \$15 million, per event, and a 100% quota share of losses in excess of \$45 million per event; subject to a maximum cession limit of \$450,000 each risk. The Company assumes from NIAC a 10% quota share of incurred losses of up to \$10 million per risk for a maximum limit of \$1 million. The Company reinsures part of the coverages as described in Note 5.
- For the years ended December 31, 2022 and 2021, the gross written premium of the Company included \$8,841,258 and \$7,849,587, respectively, for assumed reinsurance from the unaffiliated carrier.

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 2 - Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company follows accounting and reporting policies for insurance enterprises.

*Financial Statement Estimates*

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

*Investments*

Investments in debt securities are classified as available for sale and are reported at fair value, with unrealized gains and losses reported as a component of other comprehensive income. Estimated fair values of debt securities are generally based on average bid prices, or the average bid prices of similar issues with the same life and expected yields.

Realized investment gains and losses are recognized based upon the specific identification of investments sold. Debt securities are considered impaired when the fair value of the security is less than its cost or amortized cost. When a debt security is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

Factors considered in identifying other-than-temporary impairment (OTTI) for debt securities include: (1) whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the security prior to an anticipated recovery in value; (2) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss); (3) the length of time and extent to which the fair value has been less than amortized cost; and (4) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices. Any such write downs are reported as realized losses on debt securities.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the balance sheets.

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 2 - Summary of Significant Accounting Policies (Continued)**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on deposit and money market mutual funds, and any securities with original maturities within three months of the acquisition date. The Company maintains certain cash and cash equivalent balances that exceed Federal Deposit Insurance Company insurance thresholds, which management does not consider to be a significant risk.

*Premium Receivable*

The Company includes in premium receivable funds withheld of \$6,719,614 and \$6,107,541 as of December 31, 2022 and 2021, respectively, as stipulated in a reinsurance contract. Management continually monitors its receivables for collectibility, and any accounts deemed uncollectible are written off in the period the determination is made. During 2022 and 2021, the Company did not write off any premium receivable, nor did the Company record an allowance for uncollectible amounts.

*Reinsurance*

Reinsurance recoverable (including amounts related to claims incurred but not reported) are reported as assets. Reinsurance recoverable on unpaid losses and loss adjustment expenses is estimated in a manner consistent with the gross liabilities relating to the underlying insured contracts, as described below. Management continually monitors its reinsurance balances for collectibility, including a review of reinsurer creditworthiness, and any accounts deemed uncollectible are written off in the period the determination is made. No allowance for uncollectible amounts was recorded as of December 31, 2022 and 2021. Reinsurance payable represents ceded premium unpaid.

*Deferred Acquisition Costs*

Policy acquisition costs are deferred and amortized over the period of premium recognition. Deferred acquisition costs include commissions (net of ceding commissions), premium taxes and departmental costs associated with successful policy issuance. Amortization of acquisition costs was \$3,946,306 and \$3,480,738 for 2022 and 2021, respectively. Anticipated investment income is not considered in determining if a premium deficiency exists. No premium deficiency reserve has been recorded as of December 31, 2022 or 2021.

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 2 - Summary of Significant Accounting Policies (Continued)**

*Liability for Losses and Loss Adjustment Expenses*

The liability for losses and loss adjustment expenses (LAE) consists of estimated costs of each unpaid claim reported prior to the close of the accounting period, as well as those incurred but not yet reported. Management believes that the reserves for losses and LAE at December 31, 2022 and 2021 are appropriately established in the aggregate and are adequate to cover the ultimate cost of reported and unreported claims attaching by that date, based upon an actuarial analysis prepared by a consulting actuary. The establishment of appropriate reserves is an inherently uncertain process. Reserves are based on management's best estimates and the ultimate net cost may vary from these estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

*Reinsurance Payable on Paid Losses and LAE*

The reinsurance payable on paid losses and LAE represents amounts owed to NIAC, ANI and a third party cedent for losses and LAE paid by those entities, which the Company has assumed. This payable balance is regularly settled between the parties involved.

*Revenue Recognition*

Premiums are recognized as earned on a pro rata basis over the terms of the reinsured policies, usually twelve months. Unearned premium reserves are established to cover the unexpired portion of premium written.

*Income Taxes*

The Company is tax-exempt for federal tax purposes under Section 501(c)(3) of the Internal Revenue Code. With the exception of premium taxes, the Company is not subject to any state taxes. During the years ended December 31, 2022 and 2021 the Company did not have any income subject to taxation as unrelated business income. Management concluded that the Company has properly maintained its exempt status and no uncertain tax positions exist as of December 31, 2022.

*Subsequent Events*

The Company evaluated subsequent events through March 15, 2023, the date on which these financial statements were available to be issued, and considered any relevant matters in the preparation of the financial statements and note disclosures.

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 3 - Investments**

Investments in debt securities, carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31:

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<u>2022</u>				
U.S. government and agency obligations	\$ 6,250,933	\$ 1,696	\$ 491,940	\$ 5,760,689
Municipal obligations	1,696,174	-	139,212	1,556,962
Corporate obligations	6,484,363	1,399	634,950	5,850,812
Residential mortgage-backed securities	311,101	123	15,432	295,792
Commercial mortgage-backed securities	153,867	-	16,678	137,189
Automobile asset-backed securities	<u>1,064,444</u>	<u>-</u>	<u>40,834</u>	<u>1,023,610</u>
Total debt securities	<u>\$ 15,960,882</u>	<u>\$ 3,218</u>	<u>\$ 1,339,046</u>	<u>\$ 14,625,054</u>
<u>2021</u>				
U.S. government and agency obligations	\$ 5,878,445	\$ 61,048	\$ 48,831	\$ 5,890,662
Municipal obligations	1,787,319	20,766	12,463	1,795,622
Corporate obligations	6,638,373	66,799	51,284	6,653,888
Residential mortgage-backed securities	140,510	3,270	186	143,594
Commercial mortgage-backed securities	154,067	1	2,235	151,833
Automobile asset-backed securities	<u>1,186,708</u>	<u>190</u>	<u>7,808</u>	<u>1,179,090</u>
Total debt securities	<u>\$ 15,785,422</u>	<u>\$ 152,074</u>	<u>\$ 122,807</u>	<u>\$ 15,814,689</u>

The cost and estimated fair value of investments in debt securities at December 31, 2022, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Cost	Estimated Fair Value
Due in 1 year or less	\$ 792,534	\$ 781,277
Due after 1 year through 5 years	8,705,456	8,114,854
Due after 5 years through 10 years	4,842,319	4,189,666
Due after 10 years	91,161	82,666
Residential mortgage-backed securities	311,101	295,792
Commercial mortgage-backed securities	153,867	137,189
Automobile asset-backed securities	<u>1,064,444</u>	<u>1,023,610</u>
	<u>\$ 15,960,882</u>	<u>\$ 14,625,054</u>

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 3 - Investments (Continued)**

Gross realized gains and losses on sales of debt securities were \$5,897 and \$51,559 in 2022, respectively, and \$147,994 and \$19,833 in 2021, respectively.

Residential mortgage-backed securities consist entirely of issues of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae).

At December 31, 2022 and 2021, unrealized losses on debt securities were as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
<u>2022</u>						
U.S. government and agency obligations	\$ 173,970	\$ 2,939,796	\$ 317,970	\$ 2,453,086	\$ 491,940	\$ 5,392,882
Municipal obligations	54,353	660,060	84,859	896,902	139,212	1,556,962
Corporate obligations	276,944	2,978,782	358,006	2,801,639	634,950	5,780,421
Residential mortgage-backed securities	9,542	227,591	5,890	62,882	15,432	290,473
Commercial mortgage-backed securities	5,673	71,104	11,005	66,085	16,678	137,189
Automobile asset-backed securities	543	13,474	40,291	1,010,136	40,834	1,023,610
	<u>\$ 521,025</u>	<u>\$ 6,890,807</u>	<u>\$ 818,021</u>	<u>\$ 7,290,730</u>	<u>\$ 1,339,046</u>	<u>\$ 14,181,537</u>
	Less Than 12 Months	12 Months or Greater	Total			
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
<u>2021</u>						
U.S. government and agency obligations	\$ 34,706	\$ 2,891,951	\$ 14,125	\$ 555,557	\$ 48,831	\$ 3,447,508
Municipal obligations	10,906	854,717	1,557	125,784	12,463	980,501
Corporate obligations	49,868	3,314,162	1,416	49,554	51,284	3,363,716
Residential mortgage-backed securities	186	41,775	-	-	186	41,775
Commercial mortgage-backed securities	2,235	74,957	-	-	2,235	74,957
Automobile asset-backed securities	7,808	1,137,109	-	-	7,808	1,137,109
	<u>\$ 105,709</u>	<u>\$ 8,314,671</u>	<u>\$ 17,098</u>	<u>\$ 730,895</u>	<u>\$ 122,807</u>	<u>\$ 9,045,566</u>

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 3 - Investments (Continued)**

At December 31, 2022 and 2021, 286 and 159 securities, respectively, were in an unrealized loss position. The unrealized losses on the Company's investments in debt securities were caused primarily by interest rate changes during the year. Based upon management's evaluation of the impairment considerations disclosed in Note 2, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

The following table presents the Company's investment securities within the fair value hierarchy, indicating the objectivity and reliability of the inputs used to value those securities at December 31:

	Estimated Fair			
<u>2022</u>	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government and agency obligations	\$ 5,760,689	\$ 5,760,689	\$ -	\$ -
Municipal obligations	1,556,962	-	1,556,962	-
Corporate obligations	5,850,812	-	5,850,812	-
Residential mortgage-backed securities	295,792	-	295,792	-
Commercial mortgage-backed securities	137,189	-	137,189	-
Automobile asset-backed securities	<u>1,023,610</u>	<u>-</u>	<u>1,023,610</u>	<u>-</u>
Total investments	<u>\$ 14,625,054</u>	<u>\$ 5,760,689</u>	<u>\$ 8,864,365</u>	<u>\$ -</u>
	Estimated Fair			
<u>2021</u>	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government and agency obligations	\$ 5,890,662	\$ 5,890,662	\$ -	\$ -
Municipal obligations	1,795,622	-	1,795,622	-
Corporate obligations	6,653,888	-	6,653,888	-
Residential mortgage-backed securities	143,594	-	143,594	-
Commercial mortgage-backed securities	151,833	-	151,833	-
Automobile asset-backed securities	<u>1,179,090</u>	<u>-</u>	<u>1,179,090</u>	<u>-</u>
Total investments	<u>\$ 15,814,689</u>	<u>\$ 5,890,662</u>	<u>\$ 9,924,027</u>	<u>\$ -</u>

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 4 - Loss and Loss Adjustment Expense Reserves**

Activity in the loss and LAE reserves for 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Gross loss and LAE reserves, January 1	\$ 2,495,540	\$ 3,667,234
Reinsurance recoverable on unpaid loss and LAE	<u>(1,010,927)</u>	<u>(2,213,975)</u>
Net loss and LAE reserves	<u>1,484,613</u>	<u>1,453,259</u>
Incurred related to		
Current year	9,211,833	6,105,923
Prior years	<u>(133,546)</u>	<u>(38,994)</u>
Total incurred	<u>9,078,287</u>	<u>6,066,929</u>
Paid related to		
Current year	7,702,417	5,350,456
Prior years	<u>1,192,022</u>	<u>685,119</u>
Total paid	<u>8,894,439</u>	<u>6,035,575</u>
Net loss and LAE reserves, December 31	1,668,461	1,484,613
Reinsurance recoverable on unpaid loss and LAE	<u>1,309,817</u>	<u>1,010,927</u>
Gross loss and LAE reserves, December 31	<u>\$ 2,978,278</u>	<u>\$ 2,495,540</u>

As a result of changes in estimates of insured events in prior years, the loss and LAE reserves related to prior accident years decreased by a net \$133,546 and \$38,994 for the years ended December 31, 2022 and 2021, respectively. In both years the reserve development is considered de minimis.



National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 4 - Loss and Loss Adjustment Expense Reserves (Continued)**

The reconciliation of the net incurred and paid losses development tables to the liability for losses and LAE on the balance sheet as of December 31, 2022 is as follows:

Net outstanding liabilities	
Auto Physical Damage	\$ 784,474
Property	783,943
Casualty*	<u>100,044</u>
Liabilities for unpaid losses and LAE, net of reinsurance	<u>1,668,461</u>
Reinsurance recoverable	
Property	644,474
Casualty*	<u>665,343</u>
Total reinsurance recoverable on unpaid losses and LAE	<u>1,309,817</u>
Total gross liability for unpaid losses and LAE	<u><u>\$ 2,978,278</u></u>

\* Reserves for Casualty relate to accident years prior to 2013 and therefore, do not have associated additional disclosures below.

The following is information about incurred and cumulative paid losses and LAE, net of reinsurance, and total incurred-but-not-reported (IBNR) liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2022, by category:

Auto Physical Damage			Total IBNR Plus Expected Development on	Cumulative Number of
<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	<u>Reported Claims</u>	<u>Reported Claims</u>
2013	\$ 1,596,791	\$ 1,596,783	\$ -	1,158
2014	2,015,718	2,015,711	-	1,424
2015	2,015,600	2,015,606	-	1,593
2016	2,197,017	2,197,021	-	1,510
2017	2,110,928	2,110,937	-	1,463
2018	2,568,249	2,568,243	-	1,148
2019	3,033,492	3,037,497	-	1,553
2020	3,141,513	3,141,402	-	1,428
2021	5,350,820	5,324,861	-	2,112
2022	<u>7,310,210</u>	<u>6,547,803</u>	<u>(363,309)</u>	2,498
Total	<u><u>\$ 31,340,338</u></u>	<u><u>\$ 30,555,864</u></u>	<u><u>\$ (363,309)</u></u>	

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 4 - Loss and Loss Adjustment Expense Reserves (Continued)**

Property

<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	<u>Total IBNR Plus Expected Development on Reported Claims</u>	<u>Cumulative Number of Reported Claims</u>
2013	\$ 804,930	\$ 804,930	\$ -	586
2014	1,197,112	1,197,112	-	621
2015	1,073,447	1,073,447	-	597
2016	670,419	670,419	-	534
2017	1,162,418	1,162,276	-	348
2018	794,141	794,146	-	587
2019	789,430	787,729	-	655
2020	1,005,715	1,005,013	-	825
2021	1,168,274	1,133,749	-	784
2022	<u>1,879,492</u>	<u>1,132,614</u>	<u>294,112</u>	743
Total	<u>\$ 10,545,378</u>	<u>\$ 9,761,435</u>	<u>\$ 294,112</u>	

*Methodology for Determining Losses and LAE Reserves*

Loss reserves are management's best estimate of ultimate losses and are based on the analysis performed by consulting actuaries. They analyze each portion of our business in a variety of ways and use multiple actuarial methodologies in performing these analyses, including; Bornhuetter-Ferguson (paid and reported) method, paid development method, reported development method, and IBNR to case ratio method. The selected ultimate losses are within the consulting actuaries' range of reasonable levels.

*Methodology for Determining Incurred But Not Reported Reserves*

Using generally accepted actuarial reserving techniques, we project our estimate of ultimate losses and LAE at each reporting date. Our IBNR reserve is the difference between the projected ultimate losses and LAE incurred and the sum of case losses and loss expense reserves and inception-to-date paid losses and LAE.

*Significant Changes in Methodologies and Assumptions*

There were no significant changes in methodologies or assumptions from the prior year.

*Methodology for Determining Cumulative Number of Reported Claims*

Reported claim counts represent claim events on a specified policy rather than individual claimants and include claims that did not or are not expected to result in an incurred loss.

# National Alliance of Nonprofits for Insurance, Inc.

## Notes to Financial Statements (Continued)

### Note 5 - Reinsurance

In the normal course of business, the Company uses excess of loss (both per risk and catastrophe) and quota share reinsurance contracts to limit its exposure to unanticipated loss severity and frequency. Such risks reinsured would become an expense of the Company in the event the reinsurer is unable to or will not fulfill the obligations assumed under the agreements. A majority of the Company's reinsurance has been placed with reinsurers with at least an "A" rating by A.M. Best.

#### *Property*

Beginning August 1, 2016 the Company began assuming a 10% quota share of business property risks from NIAC which are limited by facultative reinsurance to \$10 million per risk. The Company and NIAC jointly buy reinsurance on a per risk excess of loss basis from unaffiliated reinsurers in excess of their combined retention. This retention was \$200,000 for both 2022 and 2021. The Company and NIAC also purchased catastrophe excess of loss coverage with unaffiliated reinsurers for \$23 million in excess of \$2 million per occurrence for both 2022 and 2021.

The effects of reinsurance ceded on premiums earned and losses, which are stated net of reinsurance on the statements of comprehensive income, are quantified in the table below:

	<u>2022</u>		<u>2021</u>
Premium earned	\$ 946,016	\$	907,426
Loss and LAE	798,580		2,147,675

### Note 6 - Related Party Transactions

The Company has a management agreement with affiliate AMS. Based on the agreement, AMS is responsible for the Company's overall operations, including claims management, reinsurance negotiations, accounting and financial management, and general and administration management. The fees charged to the affiliated companies by AMS are determined only to recover the net expenses incurred by AMS. The management and administrative fees for the services provided by AMS were \$300,000 for each of the years ended December 31, 2022 and 2021. As of December 31, 2022, the Company had a receivable from AMS of \$71,387 for these fees which is included in receivable from affiliates on the balance sheets. As of December 31, 2021, the Company had a payable to AMS of \$25,814 for these fees which is included in payable to affiliates on the balance sheets.

National Alliance of Nonprofits for Insurance, Inc.

Notes to Financial Statements (Continued)

**Note 6 - Related Party Transactions (Continued)**

Balances for assumed reinsurance on policies written by NIAC and ANI include the following as of and for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross written premium	\$ 6,161,606	\$ 5,596,093
Gross earned premium	5,807,467	5,406,814
Loss and LAE incurred	4,125,103	4,590,263
Loss and LAE reserves	2,219,543	1,621,315
Ceding commission paid	1,348,666	1,223,413

**Note 7 - Capital and Surplus**

The Company is required by the Department to maintain capital and surplus at a minimum of \$750,000. The Company's ability to pay policyholder dividends is restricted and subject to prior regulatory approval. At December 31, 2022 and 2021, the Company's reported capital was in excess of the minimum regulatory requirement.

**Note 8 - Contingencies**

In the normal course of business, lawsuits may arise against the Company. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

Required Supplemental Information (Unaudited)

## National Alliance of Nonprofits for Insurance, Inc.

### Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

The following is information about incurred and paid claims development, net of reinsurance and by category for years ended December 31:

#### Auto Physical Damage

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance										
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 1,882,406	\$ 1,772,359	\$ 1,595,818	\$ 1,595,818	\$ 1,595,818	\$ 1,596,721	\$ 1,596,721	\$ 1,596,783	\$ 1,596,791	\$ 1,596,791
2014		2,101,891	2,151,897	2,126,884	2,074,048	2,030,186	2,027,719	2,027,712	2,015,698	2,015,718
2015			2,253,390	2,053,380	1,992,389	1,978,406	2,015,854	2,015,860	2,015,809	2,015,600
2016				2,244,072	2,265,084	2,225,106	2,215,970	2,215,990	2,197,018	2,197,017
2017					2,455,719	2,373,206	2,113,041	2,113,041	2,110,556	2,110,928
2018						2,765,424	2,638,440	2,638,440	2,564,589	2,568,249
2019							2,956,171	2,956,171	3,028,283	3,033,492
2020								3,423,716	3,628,164	3,141,513
2021									4,408,525	5,350,820
2022										7,310,210
Total										<u>\$ 31,340,338</u>

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance										
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 1,542,991	\$ 1,596,493	\$ 1,595,816	\$ 1,595,889	\$ 1,595,889	\$ 1,596,779	\$ 1,596,779	\$ 1,596,780	\$ 1,596,780	\$ 1,596,783
2014		1,812,726	2,020,463	2,015,266	2,014,711	2,014,711	2,015,711	2,015,711	2,015,711	2,015,711
2015			1,779,897	1,967,502	1,969,256	1,978,368	2,015,873	2,015,873	2,015,806	2,015,606
2016				1,906,433	2,238,236	2,201,793	2,215,947	2,196,996	2,197,021	2,197,021
2017					1,861,065	2,094,877	2,112,638	2,110,863	2,110,558	2,110,937
2018						2,157,723	2,581,392	2,577,899	2,564,585	2,568,243
2019							2,688,369	3,066,770	3,021,051	3,037,497
2020								2,871,766	3,130,142	3,141,402
2021									4,490,883	5,324,861
2022										6,547,803
Total										<u>30,555,864</u>
All outstanding liabilities before 2013, net of reinsurance										-
										<u>\$ 784,474</u>

National Alliance of Nonprofits for Insurance, Inc.

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance (Continued)

Property

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 1,079,882	\$ 979,884	\$ 829,880	\$ 833,885	\$ 808,889	\$ 808,889	\$ 805,219	\$ 805,219	\$ 804,968	\$ 804,930
2014		1,224,446	1,224,446	1,245,450	1,198,450	1,198,450	1,197,113	1,197,113	1,197,113	1,197,112
2015			1,463,772	1,186,766	1,119,765	1,076,044	1,073,524	1,073,524	1,073,444	1,073,447
2016				1,129,591	780,595	844,810	684,822	684,822	670,414	670,419
2017					1,202,012	1,421,264	1,191,245	1,183,763	1,161,021	1,162,418
2018						739,828	834,821	834,822	792,502	794,141
2019							894,551	894,551	798,236	789,430
2020								1,334,139	1,141,277	1,005,715
2021									1,674,017	1,168,274
2022										1,879,492
Total										<u>\$ 10,545,378</u>

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 535,919	\$ 764,507	\$ 783,258	\$ 795,724	\$ 808,570	\$ 808,309	\$ 805,085	\$ 805,047	\$ 804,930	\$ 804,930
2014		714,017	1,072,204	1,111,494	1,189,614	1,196,047	1,197,112	1,197,112	1,197,112	1,197,112
2015			717,263	1,113,345	1,075,468	1,075,982	1,073,515	1,073,204	1,073,447	1,073,447
2016				505,241	681,248	1,140,555	670,490	669,644	670,419	670,419
2017					758,340	688,642	1,140,555	1,142,983	1,161,008	1,162,276
2018						506,513	758,860	795,700	792,484	794,146
2019							533,332	738,947	779,612	787,729
2020								757,201	982,266	1,005,013
2021									840,163	1,133,749
2022										1,132,614
Total										<u>9,761,435</u>
All outstanding liabilities before 2013, net of reinsurance										<u>-</u>
										<u>\$ 783,943</u>

National Alliance of Nonprofits for Insurance, Inc.

Average Annual Percentage Payout of Incurred Losses by Age

The following is the average historical claims duration as of December 31, 2022 by category:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
Auto Physical Damage	88.7 %	11.3 %	(0.3)%	0.1 %	0.2 %	- %	- %	- %	- %	- %
Property	67.3 %	24.5 %	15.2 %	(8.8)%	0.6 %	0.1 %	(0.1)%	- %	- %	- %