OlsenThielen & Co., Ltd.
CPAS AND ADVISORS

Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements
Together with
Independent Auditors' Report

December 31, 2019

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

CONTENTS

Olsen Thielen & Co., Ltd.
CPAS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

Plan Administrator and the Commerce Department
of the State of Minnesota
Minnesota Workers' Compensation Assigned Risk Plan
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota Workers' Compensation Assigned Risk Plan (the Plan), which comprise the balance sheet as of December 31, 2019 and 2018, and the related statements of income and comprehensive income (loss), changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2019 and 2018, 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.

Olsen Thielen + Co., Ltd.

Roseville, Minnesota
July 14, 2020

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
INVESTMENTS:		
Fixed Maturities - at Fair Value	**$ 229,011,937**	$ 221,189,666
Equity Securities - at Fair Value	**63,098,406**	47,907,285
Short-Term Investments	**6,879,763**	4,675,231
Total Investments	**298,990,106**	273,772,182
Cash	**3,376,572**	919,135
Accrued Interest and Dividends	**1,015,097**	1,050,411
Premiums Receivable, Net	**8,664,379**	8,824,267
Reinsurance Recoverable on Unpaid Losses	**423,132,000**	359,449,000
Reinsurance Recoverable on Paid Losses	**11,921,260**	11,062,859
Deferred Service Carrier Fees	**2,068,145**	2,117,963
Deferred Policy Acquisition Costs	**931,223**	986,374
Due From Broker for Security Sales	**100,387**	78,664
Other Assets	**134,011**	32,178
TOTAL ASSETS	**$ 750,333,180**	$ 658,293,033

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2019	2018
LIABILITIES:		
Reserve for Losses	**$ 619,558,000**	$ 552,463,000
Reserve for Loss Adjustment Expenses	**37,602,000**	35,899,000
Unearned Premiums	**14,934,770**	15,250,453
Due to Broker for Pending Purchases	**172,813**	172,797
Special Compensation Fund Assessment Payable	**2,267,109**	2,188,341
Servicing Carrier Administration Fee Payable	**3,055,984**	3,178,474
Other Liabilities	**656,965**	367,860
Total Liabilities	**678,247,641**	609,519,925
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	**4,671,654**	4,585,236
Appropriated for State of Minnesota	**22,085,539**	–
Unassigned	**41,502,774**	42,482,261
Accumulated Other Comprehensive Income	**3,825,572**	1,705,611
Total Policyholders' Surplus	**72,085,539**	48,773,108
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 750,333,180**	$ 658,293,033

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF INCOME AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES:		
Net Earned Premiums	**$ 35,447,340**	$ 41,910,425
Net Investment Income	**6,163,284**	6,467,215
Change in Unrealized Appreciation of Investments	**13,505,588**	–
Net Realized Capital Gains	**1,927,233**	2,156,933
Total Revenues	**57,043,445**	50,534,573
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	**28,170,903**	30,441,893
Servicing Carrier Fees	**4,788,064**	5,516,233
Special Compensation Fund Assessments	**734,010**	780,625
Other Underwriting Expenses	**6,420,630**	8,531,459
Total Losses and Expenses Incurred	**40,113,607**	45,270,210
NET INCOME	**16,929,838**	5,264,363
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in Unrealized Appreciation (Depreciation) of Investments	**6,382,593**	(6,491,255)
Other Comprehensive Income (Loss)	**6,382,593**	(6,491,255)
COMPREHENSIVE INCOME (LOSS)	**$ 23,312,431**	$ (1,226,892)

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	**$ 4,585,236**	$ 4,482,080
Transfer From Unassigned Surplus	**86,418**	103,156
End of Year	**4,671,654**	4,585,236
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	**–**	51,823,653
Transfer From Unassigned Surplus	**22,085,539**	–
Distributions to the State of Minnesota	**–**	(51,823,653)
End of Year	**22,085,539**	–
UNASSIGNED:		
Beginning of Year	**42,482,261**	37,321,054
Implementation of Accounting Standard Update (ASU) 2016-01	**4,262,632**	–
Net Income	**16,929,838**	5,264,363
Transfer to Restricted - Terrorism Coverage	**(86,418)**	(103,156)
Transfer to Appropriated for State of Minnesota	**(22,085,539)**	–
End of Year	**41,502,774**	42,482,261
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Beginning of Year	**1,705,611**	8,196,866
Implementation of Accounting Standard Update (ASU) 2016-01	**(4,262,632)**	–
Change in Unrealized Appreciation (Depreciation) of Investments	**6,382,593**	(6,491,255)
End of Year	**3,825,572**	1,705,611
TOTAL POLICYHOLDERS' SURPLUS	**$ 72,085,539**	$ 48,773,108

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	**$ 35,291,545**	$ 39,554,618
Investment Income Received	**6,097,445**	6,489,958
Loss and Loss Adjustment Expenses Paid, Net of Recoveries	**(23,914,304)**	(26,231,599)
Special Compensation Fund Assessments Paid	**(655,242)**	(673,037)
Underwriting and Other Expenses Paid	**(11,038,943)**	(13,417,489)
Net Cash Flows From Operating Activities	**5,780,501**	5,722,451
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	**(71,283,875)**	(70,299,442)
Purchases of Equity Securities	**(9,592,421)**	(1,194,559)
Proceeds From Sales of Fixed Maturities	**66,756,733**	92,893,929
Proceeds From Sales of Equity Securities	**9,678,000**	20,422,090
Due to/Due From Broker for Security Purchases and Sales	**(21,707)**	167,624
Paydowns of Fixed Maturities	**3,344,738**	2,022,792
Net Change in Short-Term Investments	**(2,204,532)**	498,703
Distributions to the State of Minnesota	**–**	(51,823,653)
Net Cash Flows From Investing Activities	**(3,323,064)**	(7,312,516)
NET CHANGE IN CASH	**2,457,437**	(1,590,065)
CASH at Beginning of Year	**919,135**	2,509,200
CASH at End of Year	**$ 3,376,572**	$ 919,135

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

NOTE 1 - DESCRIPTION OF PLAN

The Minnesota Workers' Compensation Assigned Risk Plan (the Plan) is the source of workers' compensation and employers' liability coverage for Minnesota employers who have been unable to obtain an insurance policy through the voluntary market. Coverage provided through the Plan is substantially the same as coverage available from licensed workers' compensation insurance companies.

The Plan was established in 1982 and contracts with servicing contractors who review applications, issue policies, collect premiums, pay claims, and perform other administrative duties for the Plan per contractual requirements. To the extent that the assets of the Plan are inadequate to meet its obligations, the Commissioner of the Minnesota Department of Commerce shall assess all licensed workers' compensation insurance companies doing business in the state of Minnesota an amount sufficient to fully fund the obligations of the Plan. The assessment of each insurer shall be in a proportion equal to the proportion that the amount of workers' compensation insurance written by that insurer in Minnesota during the calendar year preceding the assessment bears to the total workers' compensation insurance written in Minnesota during the same calendar year by all licensed insurers. No assessments were made in either 2019 or 2018. The servicing contractors bear no share of the Plan's liabilities.

Since inception, the Plan has contracted with seven servicing contractors to administer the program. These contractors are as follows:

- Berkley Risk Administrators Company, LLC (BRAC);
- RTW, Inc. (RTW);
- SFM Risk Solutions, Inc. (SFM);
- Employers Insurance of Wausau, a Mutual Company (EIW);
- Occupational Healthcare Management Services (OHMS);
- Deferred Compensation Administrators, Inc. (DCA); and
- St. Paul Risk Services, Inc. (SPRS)

Policies are allocated to servicing carriers according to each carrier's contractual percentage participation in the program. The percentage participations have varied over time, as outlined in the following chart:

	Percentage Participation						
Policy Inception Period	BRAC	RTW	SFM	EIW	OHMS	DCA	SPRS
Inception - 6/30/83	7.0%	–%	–%	30.0%	–%	3.0%	60.0%
7/1/83 - 12/31/86	18.0	–	–	67.0	–	15.0	–
1/1/87 - 3/31/89	50.0	–	–	33.0	–	17.0	–
4/1/89 - 3/31/92	65.0	–	–	35.0	–	–	–
4/1/92 - 3/31/94	50.0	–	–	50.0	–	–	–
4/1/94 - 3/31/97	50.0	–	–	25.0	25.0	–	–
4/1/97 - 6/30/00	50.0	–	–	50.0	–	–	–
7/1/00 - 6/30/04	100.0	–	–	–	–	–	–
7/1/04 - 12/31/09	75.0	25.0	–	–	–	–	–
1/1/10 - 12/31/16	33.3	33.3	33.3	–	–	–	–
1/1/17 - 6/30/18	–	40.0	60.0	–	–	–	–
7/1/18 - 12/31/19	–	–	100.0	–	–	–	–

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Risks and Uncertainties

Certain risks and uncertainties are inherent in the Plan's day-to-day operations and in the process of preparing its financial statements. The more significant of those risks and uncertainties, as well as the Plan's methods for mitigating, quantifying, and minimizing such risks, are presented below and throughout the notes to the financial statements.

Financial Statements Risk

The preparation of financial statements requires the Plan administrator to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. The most significant of these amounts is the liability for loss and loss adjustment expense (LAE) reserves. While the Plan administrator believes the reserve for losses and LAE makes a reasonable provision to cover the ultimate liability, it is reasonably possible that the actual ultimate loss and LAE costs may vary from amounts provided, and the variance could be material to the financial statements.

Investments Risk

The Plan is exposed to risks that issuers of securities owned by the Plan will default or that interest rates will change and cause a decrease in the value of its investments. The Plan mitigates these risks by investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Premiums Receivable Risk

Premiums receivable represent amounts to be received for policies issued. Premiums are calculated based upon information provided by the insured. Audits are performed on the information provided after the policy expiration date. These audits may result in an additional premium billing or a premium refund. Any difference between the initial premium and the audit premium is reflected in current operations when the audit premium is billed, or premium refund is recorded. The Plan provides for probable uncollectible accounts through charges to earnings and credits to a valuation allowance based on prior experience and assessment of the current status of individual accounts. Balances that are still outstanding after the Plan has used reasonable collection efforts are written-off through charges to the valuation allowance and credits to receivable accounts. The Plan's allowance for uncollectible accounts at December 31, 2019 and 2018 amounted to $4,227,062 and $4,292,641, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Effective January 1, 2019, the Plan adopted Accounting Standards Update (ASU) 2016-01 *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in the consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and no longer in other comprehensive income (OCI). The cumulative effect of the adoption resulted in an $4,262,632 after-tax reclassification from accumulated OCI to unassigned policyholders' surplus.

Investments in debt securities are classified as held-to-maturity if the Plan has the positive intent and ability to hold the securities to maturity and reports them in the financial statements at amortized cost. All other debt securities are classified as available-for-sale and reported at fair value. All equity securities held by the Plan that have readily determinable fair values are reported at fair value. The standard allows companies to make an election for those investments in equity securities where there is not a readily determinable fair value (measurement alternative election). Under this election, equity securities without readily determinable fair values are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the same or similar instruments of the same issuer.

Realized gains and losses on the sale of investments are determined using the average cost method. Investments in debt securities classified as available-for-sale are reported at fair value with unrealized gains and losses reported in other comprehensive income (loss). Both realized and unrealized gains and losses on equity securities are reported in net income. For debt securities declines in fair value that are other than temporary are included in net income.

For all investment securities, fair value is determined by reference to quoted prices in active markets.

Deferred Costs and Fees

Policy acquisition costs, such as commissions and premium taxes which vary with and are primarily related to the production of business, are deferred and amortized over the effective period of the related insurance policies. If deferred policy acquisition costs were to exceed the sum of unearned premiums and related anticipated investment income less related losses and loss adjustment expenses, the excess costs would be expensed immediately.

Service carrier fees, which are primarily related to the production and maintenance of business, are deferred and amortized over the effective period of the related insurance policies.

Unearned Premiums

Premiums are earned ratably over the terms of the policies. Unearned premiums are calculated on the daily pro-rata method and represent the unexpired portion of premiums written.

Losses and LAE

The reserves for losses and LAE represent an estimate of the ultimate net cost of all claims that have occurred and are unpaid. The reserves are based on loss factors determined by independent consulting actuaries, using statistical analyses and projections and the historical loss experience of the Plan, and give effect to estimates of trends in claim severity and frequency. As claim settlements occur that differ from reserves estimates, these differences are included in current operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Losses and LAE (Continued)

For policies with inception dates prior to April 1, 1992, the servicing contractors were responsible for all allocated and unallocated LAE incurred in the settlement of losses. Allocated loss adjustment expenses (ALAE) include legal fees and related expenses (expert testimony, investigations, etc.), medical examinations, and other costs paid to third parties associated with the defense and settlement of particular claims. Unallocated loss adjustment expenses (ULAE) include that portion of the cost of settling claims that cannot be attributed to a specific claim and are more in the nature of an overhead expense (servicing contractors' claim adjuster salaries, rent, etc.).

For polices with inception dates after April 1, 1992, the Plan is responsible for legal and related expenses incurred in the settlement of losses and, accordingly, a liability for these amounts has been established. All other ALAE and all ULAE continue to be the responsibility of the servicing contractors.

Special Compensation Fund Assessments

The Minnesota Department of Labor and Industry currently assesses all insurers writing workers' compensation insurance in Minnesota. The assessment pays for the operation of the Special Compensation Fund (SCF). The SCF pays the cost of administration by the State of Minnesota of the workers' compensation laws; reimburses supplementary benefits paid to claimants; reimburses certain benefits paid to claimants with qualifying, prior registered conditions; and, pays claims of injured employees of uninsured employers.

In March 2002, legislation was passed by the Minnesota state legislature and signed into law to change the method of assessing insured employers from a loss-based assessment to a premium-based assessment. This change was effective beginning in 2003, from which point the obligating event for assessment liability became the writing of, or becoming obligated to write or renew, the premiums on which the future assessments are to be based. According to MN Senate File 3136, the premium-based method of assessment is to be collected through a policyholder surcharge.

The special compensation fund assessment payable represents those assessments currently due based on pure premiums and the estimated liabilities for future SCF assessments based on SCF surcharges collected on policies with an effective date on or after January 1, 2003.

Restricted Surplus - Terrorism Coverage

As a result of the “Terrorism Risk Insurance Act” passed by Congress and signed into law by the President in November 2002, the Plan is required to restrict a portion of its surplus for terrorism. Through December 31, 2018, the Plan restricted $1 for every $5,000 of payroll covered by the Plan’s policies. The “Terrorism Risk Insurance Program Reauthorization Act of 2015” extends this program through 2020 and may require additional amounts to be restricted in future years.

Income Taxes

The Plan is exempt from paying income taxes under Section 501 of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Plan reviews income tax positions taken or expected to be taken to determine if there are any income tax uncertainties. This includes positions that the Plan is exempt from income taxes and as such has not filed Federal or Minnesota Income Tax Returns. The Plan recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Plan has identified no income tax uncertainties.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

Financial instruments which potentially subject the Plan to concentrations of credit risk consist principally of cash. The Plan places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Plan had a credit risk concentration at December 31, 2019 as a result of depositing $4,397,202 of funds in excess of Federal Deposit Insurance (FDIC) coverage.

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through July 14, 2020, the date the financial statements were available to be issued. Except as discussed below in Note 5 and 10, there were no subsequent events that required recognition or disclosure in the financial statements.

NOTE 3 - CASH PROVIDED BY OPERATING ACTIVITIES

A reconciliation of cash provided by operating activities to the amount reflected in the statement of cash flows is as follows:

	2019	2018
Net Cash Flow From Operating Activities:		
Net Income	**$ 16,929,838**	$ 5,264,363
Adjustments to Reconcile Net Income to Net Cash Flows From Operating Activities:		
Unrealized Gain on Securities	**(13,505,588)**	–
Net Realized Capital Gains	**(1,927,233)**	(2,156,933)
Amortization and Accretion	**(101,153)**	(136,652)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	**68,798,000**	13,180,000
Reinsurance Recoverable on Paid Losses	**(858,401)**	(2,008,706)
Reinsurance Recoverable on Unpaid Losses	**(63,683,000)**	(6,961,000)
Unearned Premiums	**(315,683)**	(3,180,912)
Premiums Receivable, Net	**159,888**	825,105
Deferred Service Carrier Fees	**49,818**	243,358
Deferred Policy Acquisition Costs	**55,151**	(51,490)
Special Compensation Fund Assessment Payable	**78,768**	107,588
Servicing Carrier Administration Fee Payable	**(122,490)**	455,859
Other Liabilities	**289,105**	(145,633)
Accrued Interest and Dividends	**35,314**	159,395
Other Assets	**(101,833)**	128,109
Net Cash Flows From Operating Activities	**$ 5,780,501**	$ 5,722,451

NOTE 4 - REINSURANCE

The Plan is reinsured by the Minnesota Workers' Compensation Reinsurance Association (WCRA). There is not, nor has there ever been, any other applicable reinsurance. The following table lists the selected per-occurrence retentions by accident year for the past eighteen years:

Accident Year	Loss only Per-Occurrence Retention
2002	350,000
2003	360,000
2004	360,000
2005	380,000
2006	780,000
2007	800,000
2008	820,000
2009	1,720,000
2010	1,800,000
2011	1,800,000
2012	1,840,000
2013	1,880,000
2014	1,920,000
2015	1,960,000
2016	2,000,000
2017	2,000,000
2018	5,000,000
2019	5,000,000

A contingent liability exists with respect to reinsurance ceded to the extent that the reinsurer is unable to meet its obligations assumed under the reinsurance agreement.

The effect of ceded reinsurance on premiums written, premiums earned, and losses and LAE is reflected in the following table:

	2019	2018
Premium Written:		
Direct	**$ 35,251,209**	$ 40,319,244
Ceded	**(138,423)**	(42,167)
Net Premiums Written	**$ 35,112,786**	$ 40,277,077
Premiums Earned:		
Direct	**$ 35,585,763**	$ 41,952,592
Ceded	**(138,423)**	(42,167)
Net Premiums Earned	**$ 35,447,340**	$ 41,910,425
Losses and Loss Adjustment Expenses Incurred:		
Direct	**$ 38,652,583**	$ 39,235,432
Ceded	**(10,481,680)**	(8,793,539)
Net Losses and Loss Adjustment Expenses Incurred	**$ 28,170,903**	$ 30,441,893

NOTE 5 - INVESTMENTS

Invested Amounts, Investment Income and Gains and Losses

The amortized cost, gross unrealized appreciation and depreciation, and the estimated fair values of investments in fixed maturities are as follows:

	2019			
	Amortized Cost	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Estimated Fair Value**
U.S. Treasury Securities and Other Obligations	**$ 175,640,808**	**$ 3,373,488**	**$ (130,747)**	**$ 178,883,549**
Mortgage-Backed Securities	**49,545,557**	**676,952**	**(94,121)**	**50,128,388**
Total Fixed Maturities	**$ 225,186,365**	**$ 4,050,440**	**$ (224,868)**	**$ 229,011,937**

	2018			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	$ 161,312,795	$ 421,379	$ (2,253,492)	$ 159,480,682
Mortgage-Backed Securities	62,433,892	194,890	(919,798)	61,708,984
Total Fixed Maturities	$ 223,746,687	$ 616,269	$ (3,173,290)	$ 221,189,666

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2019 by contractual maturity are shown below. Expected maturities will likely differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in One Year or Less	$ –	$ –
Due After One Year Through Five Years	121,629,145	123,444,184
Due After Five Years Through Ten Years	54,011,663	55,439,365
Mortgage-Backed Securities	49,545,557	50,128,388
	$ 225,186,365	$ 229,011,937

The cost and fair values of equity securities available-for-sale at 2019 and 2018 were as follows:

	2019			
Description	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity Securities	**$ 45,330,186**	**$ 17,768,220**	**$ –**	**$ 63,098,406**

	2018			
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	$ 43,644,653	$ 4,262,632	$ –	$ 47,907,285

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

At December 31, 2019 and 2018, gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	2019					
	Less Than 12 Months		**12 Months or More**		**Total**	
Description	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	**$ 28,125,781**	**$ (87,307)**	**$ 12,757,627**	**$ (43,440)**	**$ 40,883,408**	**$ (130,747)**
Mortgage-Backed Securities	**8,194,376**	**(36,856)**	**3,073,232**	**(57,265)**	**11,267,608**	**(94,121)**
Total	**$ 36,320,157**	**$ (124,163)**	**$ 15,830,859**	**$ (100,705)**	**$ 52,151,016**	**$ (224,868)**

	2018					
	Less Than 12 Months		12 Months or More		Total	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	$ 23,351,810	$ (163,695)	$ 95,416,894	$ (2,089,797)	$ 118,768,704	$ (2,253,492)
Mortgage-Backed Securities	9,601,133	(30,423)	32,143,372	(889,375)	41,744,505	(919,798)
Total	$ 32,952,943	$ (194,118)	$ 127,560,266	$ (2,979,172)	$ 160,513,209	$ (3,173,290)

The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2019. The Plan believes that its unrealized losses in equity securities are caused by market conditions influenced by the existing economic factors, as opposed to deterioration in the fundamentals of individual investments and intends to maintain its investments through this downturn.

The Plan holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the balance sheet.

Net investment income for 2019 and 2018 is summarized as follows (fixed maturities include interest on short-term investments):

	2019	2018
Fixed Maturities	**$ 5,236,701**	$ 5,547,953
Equity Securities	**1,171,415**	1,183,273
Total	**6,408,116**	6,731,226
Investment Expenses	**(244,832)**	(264,011)
Net Investment Income	**$ 6,163,284**	$ 6,467,215

NOTE 5 - INVESTMENTS (Continued)

Cash proceeds received from sales and paydowns of investments in fixed maturities during 2019 and 2018 were $70,101,471 and $94,916,721, respectively. In 2019 and 2018, gross gains of $337,067 and $11,000 and gross losses of $(180,946) and $(1,887,271), respectively, were realized on those sales.

Gross gains of $1,771,112 and $4,033,204 and were realized on sales of equity securities in 2019 and 2018, respectively.

Subsequent to year end, the Plan's investment securities experienced a decline in value.

Fair Value of Financial Instruments

The FASB *Accounting Standards Codification* establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value, as follows: Level 1, defined as observable inputs (i.e. quoted prices in active markets); Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and, Level 3, defined as unobservable inputs for which little or no market data exists, which then requires an entity to develop its own assumptions.

The Plan utilizes a pricing service to estimate its fair value measurements for its fixed maturities and equity securities. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, most fair value estimates for fixed maturities are based on observable market information rather than quoted prices. Accordingly, the estimates of fair value for fixed maturities, other than U.S. Treasury securities, are included in Level 2 of the Standard's hierarchy. U.S. Treasury securities are included in Level 1.

The fair value of the Plan's mortgage-backed securities and other debt obligations were determined based on Level 2 inputs and are estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its term, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs including probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

All equity securities owned by the Plan have active markets and are included in Level 1 of the Standard's hierarchy.

Certain equity securities are valued at the net asset value per unit based on either the observable net asset value of the underlying investment or the net asset value of the underlying pool of securities. Net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding.

Investments measured at net asset value include alternative investment fund of funds and private equity fund of funds. The Plan uses the net asset value of these investment entities to determine the fair value of these investments which do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

The Plan's fixed maturities and equity investments fair value measurements at December 31, 2019 and 2018 are as follows:

	Total	**Quoted Prices for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
2019:				
Fixed Maturities:				
U.S. Treasury Securities				
and Other Obligations	**$ 178,883,549**	**$ 178,883,549**	**$ –**	**$ –**
Mortgage-Backed Securities	**50,128,388**	**–**	**50,128,388**	**–**
Total Fixed Maturities	**229,011,937**	**$ 178,883,549**	**$ 50,128,388**	**$ –**
Investments Measured at Net Asest Value	**63,098,406**			
Totals	**$ 292,110,343**			

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2018:				
Fixed Maturities:				
U.S. Treasury Securities				
and Other Obligations	$ 159,480,682	$ 159,480,682	$ –	$ –
Mortgage-Backed Securities	61,708,984	–	61,708,984	–
Total Fixed Maturities	221,189,666	$ 159,480,682	$ 61,708,984	$ –
Investments Measured at Net Asest Value	47,907,285			
Totals	$ 269,096,951			

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2019 and 2018 are as follows:

	2019 Net Asset Value	2018 Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
SBI Non-Retirement Fund	**$ 63,098,406**	$ 47,907,285	$ –	N/A	N/A

NOTE 6 - LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

A reconciliation of beginning and end of year balances in the liability for unpaid losses and loss adjustment expenses (LAE), net of reinsurance recoverable for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Liability for Losses and LAE at Beginning of Year	**$ 588,362,000**	$ 575,182,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	**(359,449,000)**	(352,488,000)
Net Liability for Losses and LAE at Beginning of Year	**228,913,000**	222,694,000
Provision for Losses and LAE for Claims Incurred:		
Current Year	**29,089,000**	37,202,000
Prior Years	**(920,983)**	(6,758,749)
Total Incurred	**28,168,017**	30,443,251
Losses and LAE Payments for Claims Incurred:		
Current Year	**3,299,040**	4,843,191
Prior Years	**19,753,977**	19,381,060
Total Paid	**23,053,017**	24,224,251
Net Liability for Losses and LAE at End of Year	**234,028,000**	228,913,000
Reinsurance Recoverable on Unpaid Losses - End of Year	**423,132,000**	359,449,000
Liability for Losses and LAE at End of Year	**$ 657,160,000**	$ 588,362,000

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred, net of reinsurance, decreased by approximately $921,000 in 2019 and approximately $6,759,000 in 2018.

NOTE 7 - CONTINGENCIES

Since inception, the Plan has contracted with seven servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon standard written premium. Contingent liabilities exist with respect to the performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general services agreement.

The Plan is presently not engaged in any litigation that it considers will have a material adverse effect on its business. As is common with other insurance providers, the Plan is regularly engaged in the defense of claims arising out of the conduct of the insurance business.

NOTE 8 - OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as any change in policyholders' surplus originating from non-owner transactions. The Plan has identified those changes as being comprised of net income and change in unrealized appreciation or depreciation on investments. The components of comprehensive income, other than net income, are as follows:

	2019	2018
Unrealized (Depreciation) Appreciation Arising During the Period	**$ 8,309,826**	$ (4,334,322)
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income	**1,927,233**	2,156,933
Total Other Comprehensive Income (Loss)	**$ 6,382,593**	$ (6,491,255)

NOTE 9 - POLICYHOLDERS' SURPLUS

A Minnesota law requires the Plan to transfer its "excess surplus" (as defined in the statute) to the general fund of the State of Minnesota. The amount appropriated by the Plan for the State of Minnesota was $22,085,539 at December 31, 2019 and $0 at December 31, 2018.

NOTE 10 - SUBSEQUENT EVENT

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.