

Financial Report – May 31, 2022

Report prepared by Donna White, June 10, 2022

Summary

The income statement for May shows an underwriting loss year to date of \$3,369,903, \$5.2 million below the budgeted amount of \$2 million with a \$2.6 million increase to the loss in May. Earned premiums were up 2% from last year, based on the unearned premium change year to date, an increase in accrued reinsurance premiums and an increase in direct written premiums of 5.1%. Our net claims incurred is the area with the largest variance compared to last year and to budget. Year to date at May 31st our net claims incurred are \$10.7 million up 250% from last year and 97.5% higher than budgeted. General expenses, in total, are over budget at \$5.5 million, 2.3% over budget. This is the first month this year that the market value of our investments did not take a hit. The decrease in market value year to date is \$3.6 million, an improvement of just over \$180,000. Our investment income is off last year's results by over \$4.2 million. This leaves us with a year to date net loss after our taxes of \$5.2 million compared to our budget of a \$1.8 million profit.

Details – Balance Sheet

Cash and investments are down 1.7% from last year and 12.24 below budget because of the decrease in market value so far in the first 5 months of 2022 and the payment of the refund to policyholders sent in April. Accounts receivable are down .3% from last year and are just 1.7% over budget. Reinsurance recoverable is up significantly from last month, over \$6 million, and we are fortunate that we have this coverage. Over all our reinsurance receivable is up 64% from last year and 100% over budget.

Assets now stand at \$89 million dollars, up 4.4% from last year and 1.5% below budget.

Liabilities are \$52.2 million, up 19.8% from last year and 17.8% over our budgeted amount. Unearned premiums are up 5.1% and commissions owing are up 13.6%. Items to note: the increase of outstanding claims liabilities over last month of almost \$10 million, and the largest variance is still income taxes payable that is down 439% from last year due to the tax recoverable on our loss year to date. I am accruing a tax receivable based on our losses year to date.

Details – Income Statement

Direct premiums written has increased by 5.1% over the same period last year. This is 0.6% below budget year to date.

After reinsurance costs, net earned premiums are up 2.0% from last year and are 0.5% below budget.

Gross Claims Incurred

Our underwriting loss year to date is a result of the increased claims incurred year to date of \$18.5 million, up 525% from last year's year to date. Reinsurance recoveries have increased significantly due to the May CAT claim, bringing our Net Claims Incurred to \$10.7 million. Net claims incurred are 250% over last year and 97.5% over our budgeted amount.

Salaries and Benefits

Our underwriting/admin salaries and benefits are up 20% from last year and 5.5% below budget. There are 3 pay periods in June, however the June 2 payroll was paid and accrued in May. Without the 3rd payroll, this expense would be below budget.

Advertising & Donations

Advertising and donations are now 78.2% greater than last year and 30% below budget. Just over \$20K is for ad Home for work on branding and website design. This is one of our goals this year and I will review this account once the website is complete as some of these costs may be capitalized.

Building Expenses

Real estate taxes are down 3% from last year and 30% below budget. The budget appears to be high for real estate taxes.

Technology

Technology costs are 22.9% higher than year to date 2021 but much closer to budget at just 2.1% over budget.

Risk Analysis & Prevention

Overall, the cost for risk analysis & prevention is 20.5% greater than the first five months of 2021, but 14.7% below budget. Loss prevention costs were lower in 2021 during the pandemic as the inspectors were unable to travel to client locations.

Investment Income

Year to date we are recording an Investment loss of \$3.7 million due to a drastic drop in the market values. In May, market values appear to have been more stable with a modest increase in value of just over \$180,000. Investment interest is up 20.2% over last year and 36.1% over budget. Dividend income is down 94.1% from last year and 89.2% below budget.

Our net loss before taxes is \$7 million and after a provision for tax recovery of approximately \$1.7 million, we currently have a net loss of almost \$5.2 million.

Balance Sheet as at May 31st

ASSETS

Cash & Investments

	2021	2022	% off Prior	2022 B	% off Budget
Cash	6,965,346	4,257,576	-38.9%	8,757,076	-51.4%
Accrued Interest	228,053	295,347	29.5%	198,180	49.0%
Investments @ Cost	47,469,018	53,331,540	12.4%	53,115,015	0.4%
Change in Market Value	<u>3,216,382</u>	<u>(968,565)</u>	-130.1%	<u>2,904,802</u>	-133.3%
	57,878,798	56,915,898	-1.7%	64,975,072	-12.4%

Accounts Receivable

Policyholders	8,154,490	8,594,608	5.4%	8,449,712	1.7%
Due from Facility	<u>431,138</u>	<u>(36,214)</u>	-108.4%	<u>(37,584)</u>	-3.6%
	8,585,627	8,558,394	-0.3%	8,412,127	1.7%

Reinsurance

Due from FM Re - Catastrophe Claims	735,502	3,534,106	380.5%	149,504	2263.9%
Due from FM Re - Paid Claims	229,430	25,652	-88.8%	0	0.0%
Reinsurance Claims Reserves	4,892,291	4,794,113	-2.0%	3,453,083	38.8%
Reinsurance Claims IBNR	<u>2,148,839</u>	<u>4,773,401</u>	122.1%	<u>2,948,839</u>	61.9%
	8,006,061	13,127,272	64.0%	6,551,426	100.4%

Broker Acquisition

Broker Purchase	568,000	568,000	0.0%	568,000	0.0%
Broker Acquisition - Amortization	<u>(227,467)</u>	<u>(341,317)</u>	50.1%	<u>(407,302)</u>	-16.2%
	340,533	226,683	-33.4%	160,698	41.1%

Building and Equipment

Land	1,039,600	1,039,600	0.0%	1,039,600	0.0%
Building	5,635,326	5,635,326	0.0%	5,635,326	0.0%
Building - Accumulated Depreciation	<u>575,272</u>	<u>716,153</u>	24.5%	<u>716,151</u>	0.0%
	5,060,054	4,919,173	-2.8%	4,919,175	0.0%
Building Components	645,705	645,705	0.0%	645,705	0.0%
Building Components - Accum. Depreciation	<u>131,829</u>	<u>164,111</u>	24.5%	<u>164,109</u>	0.0%
	513,875	481,593	-6.3%	481,596	0.0%
Office Equipment	764,308	811,661	6.2%	801,538	1.3%
Office Equipment - Accum. Depreciation	<u>301,556</u>	<u>380,410</u>	26.1%	<u>381,382</u>	-0.3%
	462,752	431,251	-6.8%	420,156	2.6%
Computer Equipment	796,730	823,891	3.4%	822,021	0.2%
Computer Equipment - Accum. Depreciation	<u>572,639</u>	<u>686,934</u>	20.0%	<u>687,681</u>	-0.1%
	224,091	136,957	-38.9%	134,340	1.9%

Other Assets

Deferred Policy Acquisition Expenses	2,974,201	3,083,640	3.7%	3,168,298	-2.7%
Deferred Income Taxes	130,000	120,000	-7.7%	130,000	-7.7%
Prepaid Expenses	97,445	48,899	-49.8%	97,445	-49.8%
Employee Payroll Deductions	<u>869</u>	<u>962</u>	10.6%	<u>1,451</u>	-33.7%
	3,202,515	3,253,501	1.6%	3,397,194	-4.2%
	<u>\$85,313,907</u>	<u>\$89,090,323</u>	4.4%	<u>\$90,491,384</u>	-1.5%

Balance Sheet as at May 31st

	2021	2022	% off Prior	2022 B	% off Budget
LIABILITIES					
Accounts Payable					
Expenses Due & Accrued	392,812	426,863	8.7%	394,384	8.2%
Reinsurance Premiums Due	180,192	523,592	190.6%	514,043	1.9%
Employee Payroll Deductions	<u>0</u>	<u>28</u>	0.0%	<u>0</u>	0.0%
	573,004	950,483	65.9%	908,426	4.6%
Due to Brokers					
Contingent Profit Sharing	276,105	232,319	-15.9%	250,000	-7.1%
Marketing Program	117,000	200,000	70.9%	52,019	284.5%
Commissions	<u>497,188</u>	<u>564,782</u>	13.6%	<u>626,003</u>	-9.8%
	890,293	997,101	12.0%	928,022	7.4%
Outstanding Claims					
Facility Claims	0	0	0.0%	0	0.0%
Gross Claims Outstanding	18,719,502	26,589,754	42.0%	18,259,696	45.6%
Gross Claims IBNR	<u>5,935,042</u>	<u>8,450,979</u>	42.4%	<u>6,265,042</u>	34.9%
	24,654,544	35,040,733	42.1%	24,524,738	42.9%
Taxes Due					
Income Taxes	708,722	(2,404,356)	-439.3%	100,271	-2497.8%
RST & HST	<u>122,499</u>	<u>150,582</u>	22.9%	<u>139,348</u>	8.1%
	831,221	(2,253,775)	-371.1%	239,620	-1040.6%
UEP & Other Liabilities					
Miscellaneous	0	(10,974)	0.0%	0	0.0%
Premium Deficiency	0	0	0.0%	0	0.0%
Unearned Premiums	<u>16,669,061</u>	<u>17,523,367</u>	5.1%	<u>17,761,157</u>	-1.3%
	16,669,061	17,512,393	5.1%	17,761,157	-1.4%
	<u>43,618,123</u>	<u>52,246,936</u>	19.8%	<u>44,361,963</u>	17.8%
SURPLUS					
Opening Balance	37,640,360	42,129,956	11.9%	44,319,646	-4.9%
Earnings during the Period	<u>4,055,425</u>	<u>(5,286,568)</u>	-230.4%	<u>1,809,775</u>	-392.1%
Ending Surplus	41,695,785	36,843,387	-11.6%	46,129,421	-20.1%
	<u>\$85,313,907</u>	<u>\$89,090,323</u>	4.4%	<u>\$90,491,384</u>	-1.5%

Income Statement to May 31st

	2021	2022	% off Prior	2022 B	% off Budget
Premiums					
Premiums Written - Direct	13,392,326	14,081,654	5.1%	14,160,360	-0.6%
Premiums Written - Facility/Other	<u>79,244</u>	<u>111,153</u>	40.3%	<u>95,585</u>	16.3%
	13,471,570	14,192,807	5.4%	14,255,945	-0.4%
Reinsurance Premiums					
Reinsurance Ceded - Direct	1,550,307	2,043,314	31.8%	1,925,159	6.1%
Reinsurance Ceded - Other	<u>193,079</u>	<u>142,327</u>	-26.3%	<u>140,641</u>	1.2%
	1,743,386	2,185,641	25.4%	2,065,800	5.8%
Change in Unearned Premium					
Increase / (Decrease) in UEP	<u>(724,554)</u>	<u>(700,044)</u>	-3.4%	<u>(455,369)</u>	53.7%
NET EARNED PREMIUM	12,452,737	12,707,210	2.0%	12,645,514	0.5%
Policy Interest / Charges					
Pre-authorized Payment Revenue	204,157	216,361	6.0%	214,425	0.9%
NSF Fees	<u>0</u>	<u>5,800</u>	0.0%	<u>2,312</u>	150.9%
TOTAL INCOME	<u>12,656,894</u>	<u>12,929,370</u>	2.2%	<u>12,862,251</u>	0.5%
Gross Claims Incurred					
Gross Claims and External Adjusting	2,718,713	18,293,113	572.9%	6,232,175	193.5%
Claims - Salaries	132,623	170,181	28.3%	150,770	12.9%
Claims - Benefits	33,182	41,032	23.7%	39,107	4.9%
Other Internal Claims Costs	1,883	674	-64.2%	80,319	-99.2%
Facility & Other Claims Cost	<u>83,008</u>	<u>49,309</u>	-40.6%	<u>81,620</u>	-39.6%
	2,969,408	18,554,309	524.8%	6,583,991	181.8%
Reinsurance Recoveries					
	<u>(107,626)</u>	<u>7,774,306</u>	-7323.4%	<u>1,125,000</u>	591.0%
NET CLAIMS INCURRED	<u>3,077,035</u>	<u>10,780,003</u>	250.3%	<u>5,458,991</u>	97.5%
Policy Acquisition Expenses					
Commission Expense	2,348,977	2,480,116	5.6%	2,467,663	0.5%
Contingent Profit Sharing Commission (CPC)	262,500	250,000	-4.8%	250,000	0.0%
Sales - Salaries / Remuneration	94,921	123,367	30.0%	106,146	16.2%
Sales - Benefits	23,232	26,272	13.1%	24,460	7.4%
Broker Promotion & Advertising	0	0	0.0%	16,665	-100.0%
Agency Rent / Expenses / Promotion	9,686	28,541	194.7%	40,001	-28.6%
Agency purchase amortization	47,200	47,350	0.3%	47,335	0.0%
Rating Costs / Broker Connectivity	9,173	31,314	241.4%	94,097	-66.7%
Less:					
Change in Deferred Policy Acquisition Expenses	(147,228)	(205,891)	39.8%	(68,803)	199.2%
Facility & Other Commission Revenue	<u>26,362</u>	<u>11,751</u>	-55.4%	<u>22,071</u>	-46.8%
NET COMMISSION EXPENSE	<u>2,916,555</u>	<u>3,181,100</u>	9.1%	<u>3,093,098</u>	2.8%

Income Statement to May 31st

	2021	2022	% off Prior	2022 B	% off Budget
Directors Fees and Benefits					
Directors Fees	63,843	76,626	20.0%	85,452	-10.3%
Benefits	<u>31,031</u>	<u>31,080</u>	0.2%	<u>29,189</u>	6.5%
	94,874	107,706	13.5%	114,641	-6.0%
Professional Fees					
Audit Fees	15,000	15,000	0.0%	25,000	-40.0%
Legal Fees, Office Related	0	0	0.0%	1,668	-100.0%
Professional Fees	<u>28,466</u>	<u>22,637</u>	-20.5%	<u>11,117</u>	103.6%
	43,466	37,637	-13.4%	37,785	-0.4%
Salaries and Benefits					
Underwriting / Admin - Salaries	542,104	666,578	23.0%	629,768	5.8%
Underwriting / Admin - Benefits	<u>153,007</u>	<u>168,791</u>	10.3%	<u>162,045</u>	4.2%
	695,111	835,369	20.2%	791,813	5.5%
Travel Expenses & Meals					
Travelling Expense	0	2,342	0.0%	3,975	-41.1%
Travel Directors	0	3,686	0.0%	4,774	-22.8%
Meals Expenses	<u>550</u>	<u>4,964</u>	801.8%	<u>6,181</u>	-19.7%
	550	10,991	1896.9%	14,930	-26.4%
Advertising & Donations					
Advertising	25,939	41,543	60.2%	26,804	55.0%
Donations	<u>780</u>	<u>6,073</u>	678.5%	<u>41,396</u>	-85.3%
	26,719	47,615	78.2%	68,200	-30.2%
Conventions & Annual Meeting					
Non-OMIA Conferences	0	11,320	0.0%	26,495	-57.3%
OMIA Conferences	<u>1,141</u>	<u>19,471</u>	1606.0%	<u>748</u>	2503.1%
	1,141	30,791	2597.9%	27,243	13.0%
Education					
Education - Staff	10,886	16,574	52.2%	17,171	-3.5%
Education - Directors	<u>221</u>	<u>2,384</u>	979.3%	<u>1,746</u>	36.6%
	11,107	18,958	70.7%	18,917	0.2%
Depreciation					
Depreciation Expense - Building & Equipment	<u>103,995</u>	<u>105,101</u>	1.1%	<u>105,527</u>	-0.4%
	103,995	105,101	1.1%	105,527	-0.4%
Sundry / Other					
Sundry	3,139	6,417	104.4%	6,511	-1.4%
Bad Debts	519	3,989	668.9%	4,205	-5.1%
Insurance	90	20,514	22659.9%	4,519	353.9%
Kitchen Expense	<u>2,178</u>	<u>2,703</u>	24.1%	<u>3,137</u>	-13.8%
	5,926	33,622	467.3%	18,372	83.0%

Income Statement to May 31st

	2021	2022	% off Prior	2022 B	% off Budget
Membership Fees					
Membership Fees	<u>58,875</u>	<u>55,022</u>	-6.5%	<u>54,292</u>	1.3%
	58,875	55,022	-6.5%	54,292	1.3%
Government & Regulatory					
Premium Tax	46,256	49,723	7.5%	48,639	2.2%
Facility Association	0	0	0.0%	0	0.0%
RST Income	(1,500)	(1,500)	0.0%	(500)	200.0%
Regulatory Assessments	<u>0</u>	<u>60,003</u>	0.0%	<u>400</u>	14900.8%
	44,756	108,226	141.8%	48,539	123.0%
Building Expenses					
Real Estate Taxes	43,279	41,984	-3.0%	60,000	-30.0%
Fuel and Light	16,834	23,169	37.6%	18,365	26.2%
Janitorial and Cleaning	16,404	13,113	-20.1%	19,275	-32.0%
Repair and Maintenance, Building	<u>8,035</u>	<u>6,715</u>	-16.4%	<u>7,272</u>	-7.7%
	84,551	84,981	0.5%	104,912	-19.0%
Office Expenses					
Postage	31,707	33,566	5.9%	32,308	3.9%
Telephone	18,877	24,528	29.9%	22,093	11.0%
Printing, Stationary and Office	<u>18,784</u>	<u>20,716</u>	10.3%	<u>26,484</u>	-21.8%
	69,368	78,810	13.6%	80,885	-2.6%
Technology					
OMIA - Stats - IT Costs	27,621	29,444	6.6%	24,273	21.3%
Insurance System Fees	242,974	273,280	12.5%	257,500	6.1%
IT Contractors	15,893	30,375	91.1%	20,835	45.8%
IT Supplies	2,733	8,521	211.7%	4,165	104.6%
Software and other License Fees	16,732	38,250	128.6%	58,335	-34.4%
Depreciation Expense - Computer	<u>41,335</u>	<u>46,872</u>	13.4%	<u>52,960</u>	-11.5%
	347,289	426,743	22.9%	418,068	2.1%
Risk Analysis & Prevention					
Loss Prevention - Salaries	158,949	190,813	20.0%	169,820	12.4%
Loss Prevention - Benefits	43,737	48,169	10.1%	45,049	6.9%
Purchase (Sales) of Fire Equipment	1,982	(512)	-125.8%	3,520	-114.5%
External Inspection Expense	4,325	9,437	118.2%	66,666	-85.8%
Inspection - Education	2,055	3,116	51.6%	4,647	-32.9%
Policy Underwriting Information	16,501	14,571	-11.7%	22,424	-35.0%
Inspection - Travel / Expenses	<u>9,665</u>	<u>20,208</u>	109.1%	<u>22,964</u>	-12.0%
	237,215	285,802	20.5%	335,090	-14.7%
Bank Charges					
Bank Charges	<u>61,321</u>	<u>70,797</u>	15.5%	<u>62,292</u>	13.7%
	61,321	70,797	15.5%	62,292	13.7%
GENERAL EXPENSES	<u>\$4,802,820</u>	<u>\$5,519,270</u>	14.9%	<u>\$5,394,604</u>	2.3%
Underwriting Profit / (Loss)	<u>\$4,777,040</u>	<u>(\$3,369,903)</u>	-170.5%	<u>\$2,008,656</u>	-267.8%

Income Statement to May 31st

	2021	2022	% off Prior	2022 B	% off Budget
Investment Income					
Investment Interest Earned	281,860	338,674	20.2%	248,754	36.1%
Dividend Income Earned	326,778	19,122	-94.1%	177,637	-89.2%
Gain or Loss on Sale of Investments	(145,772)	(339,868)	133.2%	339	-100355.9%
Change in Market Value Investments	257,625	(3,623,366)	-1506.4%	60,997	-6040.2%
Loss/Gain on Disposal of Assets	0	0	0.0%	0	0.0%
Portfolio Management Fees	<u>92,107</u>	<u>72,229</u>	-21.6%	<u>83,350</u>	-13.3%
	628,385	(3,677,666)	-685.3%	404,377	-1009.5%
 Net Profit / (Loss) before Tax	 \$5,405,425	 (\$7,047,568)	 -230.4%	 \$2,413,033	 -392.1%
Income Tax Expense					
Income Tax Expense - Current	1,350,000	(1,761,000)	-230.4%	603,258	-391.9%
 Net Profit / (Loss)	 \$4,055,425	 (\$5,286,568)	 -230.4%	 \$1,809,775	 -392.1%