Excess Insurance Organization, Inc.

FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2018 AND 2017
REPORT OF INDEPENDENT AUDITORS

EXCESS INSURANCE ORGANIZATION, INC.

Fiscal Years Ended June 30, 2018 and 2017

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December 13, 2018

Members, Board of Directors
Excess Insurance Organization, Inc.

Ladies and Gentlemen:

The Excess Insurance Organization, Inc. (EIO or the Captive), is a captive insurance company regulated by the Utah Insurance Department. The Captive is reported as a blended component unit of the CSAC Excess Insurance Authority (EIA or the Authority), which is a California governmental Joint Powers Authority. Only the risks of the Authority, its parent company, are transferred to the Captive. On June 30, 2018, the Captive celebrated completion of the second year of successful operations. The Captive took on the risk transferred from the Authority within fixed corridors (where the amount of coverage is a known dollar amount and there is no actuarial risk) in the workers' compensation, liability, and property programs. In total, the Captive covered fixed risks of $188M across all participating programs in years ended June 30, 2018 and 2017.

The initial purpose in forming the Captive was to provide a better rate of return on investments by matching the long term liabilities of the Authority with a more diversified portfolio of investments than what is afforded in the California regulatory framework. This has already proved beneficial, as the total return on the Captive portfolio was 3.43% for the year ended June 30, 2018, compared to a rate of return on the Authority portfolio of 0.29% for the same period. The return on the Captive's equity portfolio was 11.3% for the year ended June 30, 2018. The overall return consolidated for the Authority and the Captive was 0.87% for the year ended June 30, 2018.

In the spring at the Authority's retreat and at their June Board meeting, the overall strategic plan for the EIA was discussed. We focused on 3 strategic initiatives: national expansion, investment opportunities for our members, and transferring actuarial risk to the EIO. All of these support the EIA's existing strategic plan's goals. After further discussion, the EIA Board has conceptually approved national expansion of the EIO under the existing Pure Captive model. Actual implementation will be on a program-by-program basis, as directed and approved by the Authority's Board. This will enable the EIA to expand its reach outside of the State of California to spread and diversify risk, leverage reinsurance markets, and to identify and implement industry-wide best practices.

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Based upon our comprehensive framework of internal control, we believe our report is accurate in all material respects; that it fairly sets forth the financial position and results of operations of the Captive, and that all necessary disclosures for understanding the report have been included. Because the cost of control should not exceed the benefits to be derived, our objective is to provide reasonable, rather than absolute assurance, that our financial statements are free of any material misstatements.

Gilbert Associates Inc., Certified Public Accountants, has issued an unmodified opinion that the Captive's financial statements, for the fiscal years ended June 30, 2018 and 2017, are fairly presented in conformity with Generally Accepted Accounting Principles. The independent auditor's report is presented in this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report. The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The preparation of this report would not have been possible without the best efforts of the Finance and Administrative Departments and we thank them for their contribution. We commend the members of the Captive's Board of Directors for their support in maintaining the highest standards of professionalism in the management of the Captive's finances and operations.

Respectfully Submitted,

Michael Fleming
Chief Executive Officer

Puneet Behl

Puneet Behl, CPA
Chief Financial Officer

Gilbert Associates, Inc.
CPAs and Advisors
Relax. We got this.℠

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Excess Insurance Organization, Inc.
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Excess Insurance Organization, Inc. (the Captive) as of June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Captive's basic financial statements as listed in the table of contents.

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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Captive as of June 30, 2018 and 2017, and the changes in financial position and cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Captive's basic financial statements. The Letter of Transmittal, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the Captive's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Captive's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 28, 2018

EXCESS INSURANCE ORGANIZATION, INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis provides an overview of the financial position of the Excess Insurance Organization, Inc. (the Captive) and its activities for the fiscal years ended June 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Captive, a component unit of the CSAC Excess Insurance Authority (the Authority), provides insurance coverages to the Authority. As part of the Authority, the assets, liabilities, revenues and expenses, and changes in net position of the Captive are included in the consolidated financial statements of the Authority. The Captive is a not for profit corporation formed under the State of Utah Revised Nonprofit Corporation Act and is governed by its Board of Directors and regulated by the State of Utah Insurance Department.

Overview of the Financial Statements

The financial statements report information about the Captive as a whole in accordance with U.S. Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, which have also been used in the preparation of the Annual Statement filed with the State of Utah Insurance Department. Financial statements include the Statement of Net Position, which provides information about the Captive's financial condition at June 30, 2018 and, 2017; the Statement of Revenues, Expenses, and Changes in Net Position, which presents information regarding the results of operations and changes in net position for the years ended June 30, 2018 and 2017; the Statement of Cash Flows, which displays information pertaining to cash receipts and disbursements for the years ended June 30, 2018 and 2017 and the notes to the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements, and can be found beginning on page 18 of this report.

Insurance Activity

Effective July 1, 2016, the Captive provides coverages for corridors assumed by the Authority within the excess and reinsurance layers of the Authority's various programs. The Captive underwrites fixed corridors of the Authority providing coverages for certain lines of coverage within its property and casualty programs including workers' compensation, general liability and property programs. In fiscal year 2016/17, a loss portfolio was also transferred and covered by the Captive for the Authority's older claims in the workers' compensation program. All coverages provided are on an occurrence basis. Following is the breakdown of risks of the Authority covered by the Captive in the

2016/17 and 2017/18 program years:

Programs	Corridor Risk Covered			
	2017/18		2016/17	
Primary Workers Compensation Program	$	10,749,222	$	15,726,754
Excess Workers Compensation Program		61,278,766		33,534,748
Primary General Liability Program		500,000		-
General Liability 1 Program		2,500,000		5,000,000
General Liability 2 Program		17,973,212		17,801,550
Property Program		10,400,000		12,600,000
Total	**$**	**103,401,200**	**$**	**84,663,052**

Expanded Business Plan

After July 1, 2016, the Captive obtained the following regulatory approval to expand its business plan subsequent to the initial approval of the business plan that will affect the Captive's future. From time to time, a regulatory approval may be sought for modification of pool limits, the Authority's carrier changes, or other changes to risk transferred to the Captive. A proposal for Changes in Lines and/or Limits of Coverage is filed with Utah Insurance Department for every new program year.

- Loss Portfolio Transfer

  Effective July 1, 2016, the Captive entered into a loss portfolio transfer (LPT) assuming $9.8M of the Authority's liabilities, as determined by an independent actuary, for claims arising out of incidents that occurred between the periods of July 1, 1997 to June 30, 2004 related to workers' compensation exposures, in exchange for $9M in premium consideration. All premiums related to the LPT have been collected. The valuation of liabilities under this agreement were determined by an independent actuary using a discount of 3.75% as of June 30, 2018 based on the underlying exposures. The total discount on the transaction was $1.4M. The transaction was approved by the Utah Insurance Department.

Statement of Net Position

The Statement of Net Position in this MD&A presents the financial position of the Captive at June 30, 2018 and 2017. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of the Captive, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year.

The Captive's assets, liabilities, and net position at June 30, 2018 and 2017 are summarized as follows:

	June 30, 2018	June 30, 2017
Cash and Cash Equivalents	$ 3,065,933	$ 1,554,552
Investments	153,610,671	69,138,145
Other Assets	3,195,481	5,934,817
Total Assets	159,872,085	76,627,514
Current Liabilities	55,865,158	17,489,955
Non Current Liabilities	90,347,720	50,141,734
Total Liabilities	146,212,878	67,631,689
Capital Stock	5,000,000	5,000,000
Unrestricted Net Position	8,659,207	3,995,825
Total Net Position	$ 13,659,207	$ 8,995,825

Assets: The assets of the Captive totaled $159.9M at June 30, 2018 as compared to $76.6M as of June 30, 2017. The majority of assets are in cash or investments and are provided by current year operating activities, which includes the collection of premiums of $97M in fiscal year 2017/18 and $76.9M in fiscal year 2016/17, much of which could then be invested as claims are paid over a longer period. Current assets included investment income receivable and a prefunded deposit fronted by the Captive to the Authority for claim payments in the Property Program.

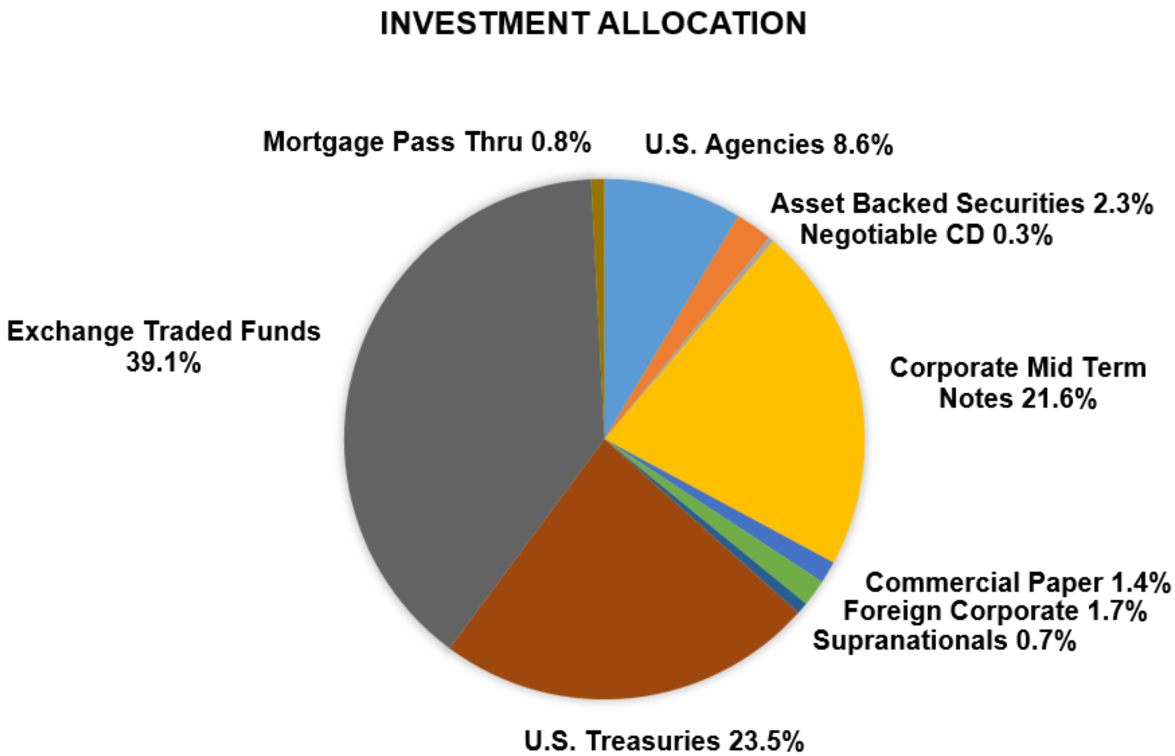
At June 30, 2018 and 2017, all cash was held in bank, money market account, or investment portfolios managed by Chandler Asset Management (CAM or Chandler), a professional investment management firm.

The basic investment objective of the Captive is to foster a prudent and systematic investment program designed to seek EIO objectives through a diversified investment program. The Captive investments are comprised of three portfolios: Liquidity, Core Fixed, and Equity profiles separated not only to identify the cash flow needs of the Captive, but also to track the maturity and returns on different categories of investments separately. Total return strategies are employed to take advantage of disparities in the market to improve quality and yield, while maintaining liquidity.

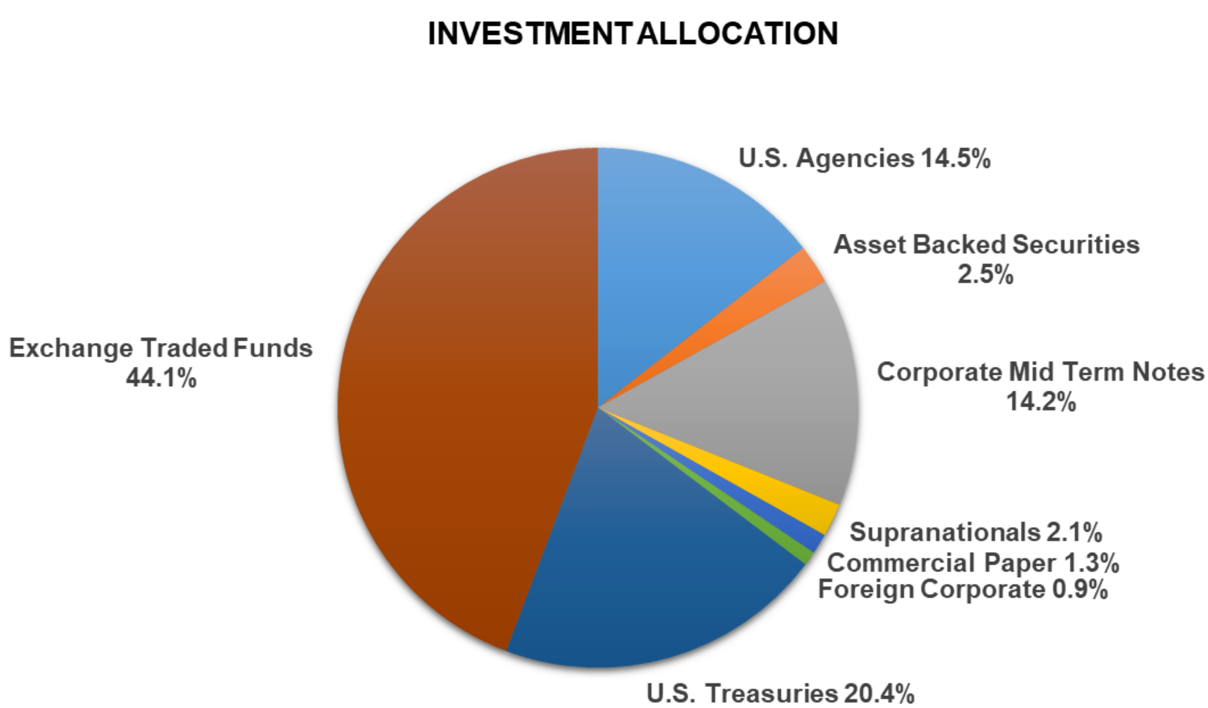
The Liquidity Portfolio is structured to provide safety of principal, liquidity to meet the EIO's cash needs, and generate a competitive return/yield.

The Core Fixed Income and Equity Portfolios are managed to an asset allocation target in line with the Organization's risk parameters and return objectives.

The Captive's investments at June 30, 2018 are summarized as follows:



The Captive's investments at June 30, 2017 are summarized as follows:



Liabilities: The liabilities of the Captive totaled $146.2M at June 30, 2018 and $67.6M in 2017. The liabilities mainly comprise of the reserves for losses and Loss Adjustment Expenses (LAE) incurred from current and prior period operations and the loss portfolio transferred to the Captive in fiscal year 2016/17. Accounts Payable relate to the claims paid by the Authority billed back to the Captive for the latter part of fiscal years 2017 and 2018. The unearned revenue is from the Property Program corridor that runs from March 31, 2018 to March 31, 2019.

The reserves for losses and LAE reported in the financial statements include case based reserves and supplemental amounts for Incurred But Not Reported (IBNR) losses up to the discounted maximum limit of the corridor. The reserves for losses and LAE are stated on a discounted basis, meaning they reflect an adjustment for net present value. Unallocated Loss Adjustment Expenses (ULAE) costs are not reserved by the Captive as they are paid by the Authority.

Management believes that its aggregate liability for unpaid losses and LAE at period-end represents its best estimate of the amount necessary to cover the ultimate cost of losses, based upon the available data and an actuarial analysis prepared by an actuary.

Reserves for losses including IBNR and LAE by line of business at June 30, 2018 are summarized as follows:

Programs	**Reserves and IBNR As of June 30, 2018**	**Percentage of Total**
Primary Workers Compensation Program	$ 13,562,297	10%
Excess Workers Compensation Program	76,658,052	58%
Primary General Liability Program	354,488	0%
General Liability 1 Program	7,132,500	5%
General Liability 2 Program	32,702,989	25%
Property Program	2,437,394	2%
Total	**$ 132,847,720**	**100%**

Reserves for losses including IBNR and LAE by line of business at June 30, 2017 are summarized as follows:

Programs	**Reserves and IBNR As of June 30, 2017**	**Percentage of Total**
Primary Workers Compensation Program	$ 10,202,970	17%
Excess Workers Compensation Program	26,905,422	45%
General Liability 1 Program	4,503,143	7%
General Liability 2 Program	16,516,162	27%
Property Program	2,514,037	4%
Total	**$ 60,641,734**	**100%**

Net Position: Net position was in a surplus and totaled $13.7M at June 30, 2018 and $9M at June 30, 2017 out of which $5M was the Capital Stock issued by the Captive for the paid in capital contributed by the Authority at the end of both years.

The Captive's unrestricted net position was in excess of the $250k minimum, unimpaired paid-in capital and surplus required by the State of Utah Insurance Department (the Department) for single parent captive insurance companies at June 30, 2018. The Department may require additional capital based on the volume and type of risk to be retained. At inception, the Captive was capitalized with paid-in capital of $5M based on its approved business plan.

All dividends currently require regulatory approval prior to payment. No dividends were declared or paid during the years ended June 30, 2018 and 2017.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position for the years ended June 30, 2018 and, 2017 are summarized as follows:

	June 30, 2018	June 30, 2017
Operating Revenues:		
Contributions for Retained Risk	$ 96,982,623	$ 76,851,052
Total Operating Revenues	96,982,623	76,851,052
Operating Expenses:		
Provisions for Claims	96,534,720	75,803,096
Other Expenses	150,354	115,328
*Total Operating Expenses	96,685,074	75,918,424
Operating Income (Loss)	297,549	932,628
NonOperating Revenues (Expenses):		
Investment Income and Financing Fees	4,365,833	3,063,197
Total NonOperating Revenues (Expenses)	4,365,833	3,063,197
Changes in Net Position	4,663,382	3,995,825
Net Position Beginning of Year	3,995,825	
Capital Stock	5,000,000	5,000,000
Ending Balance, June 30	$ 13,659,207	$ 8,995,825

*Does not match basic Financial Statement due to presentation of transfers to EIA

The Captive's operating revenues totaled $97M for the year ended June 30, 2018, compared to $76.9M for the year ended June 30, 2017. The lines of coverage included workers' compensation, general liability, and property in both years. The workers' compensation corridors are subject to a payroll audit adjustment after the end of a program year. Direct written premiums charged to the Authority are set based on fixed corridor risks of the Authority covered by the Captive, discounted at investment earnings

expected to be earned over the life of the corridor.
Direct written premiums by line of business in the years ended June 30, 2018 and, 2017 are summarized as follows:

Programs	Direct Written Premium	
	Fiscal Year 2017/18	Fiscal Year 2016/17
Primary Workers Compensation Program	$ 10,345,761	$ 14,384,693
Excess Workers Compensation Program	57,409,507	29,818,932
Primary General Liability Program	460,000	-
General Liability 1 Program	2,300,000	4,600,000
General Liability 2 Program	16,535,355	16,377,427
Property Program	9,932,000	11,670,000
Total	**$ 96,982,623**	**$ 76,851,052**

The Captive's total net incurred losses and LAE, excluding IBNR, totaled $110.6M, as of June 30, 2018 as compared to $75.8M as of June 30, 2017. Total incurred losses and LAE for the years ended June 30, 2017 and 2018 by line of coverage are summarized as follows:

Programs	Incurred Losses, and LAE	
	as of June 30, 2018	as of June 30, 2017
Primary Workers Compensation Program	$ 25,382,166	$ 13,352,933
Excess Workers Compensation Program	34,649,877	8,785,982
Primary General Liability Program	253,703	-
General Liability 1 Program	7,132,500	4,503,143
General Liability 2 Program	21,248,290	463,897
Property Program	21,926,807	12,704,956
Total	**$ 110,593,343**	**$ 39,810,910**

The Captive's other operating expenses totaled $150k for the year ended June 30, 2018 as compared to $115k for the prior year. These expenses included licensing fees, travel, legal, supplies, and reimbursement to the Authority for use of its staff to carry on the Captive's operations.

Non-operating revenues consist of investment income earned of $4.5M during the year ended June 30, 2018 as compared to $3.1M in the prior year. The investment expense for the year ended June 30, 2018, was $182k reducing the total non-operating revenue to $4.4M. Investment expense for the year ended June 30, 2017 was $63k reducing the total non-operating revenue to $3.1M. The increase in investment expense is a result of a growing investment portfolio.

Economic Factors that will affect the Future

Investment Factors

The Captive faces many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equities securities respond to such factors as economic conditions, individual Captive earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market variances that can limit or erode value.

EXCESS INSURANCE ORGANIZATION, INC
STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
ASSETS:		
Current Assets:		
Cash in Banks	$ 830,787	$ 278,916
Cash, Treasury	2,235,146	1,275,636
TOTAL CASH & CASH EQUIVALENTS	3,065,933	1,554,552
Investments	11,268,906	9,965,116
Accounts Receivable		
Due from Members	-	3,244,790
Investment Income Receivable	695,481	190,027
Prefund Deposit	2,500,000	2,500,000
TOTAL CURRENT ASSETS	17,530,320	17,454,485
Noncurrent Assets:		
Investments	142,341,765	59,173,029
TOTAL NONCURRENT ASSETS	142,341,765	59,173,029
TOTAL ASSETS	159,872,085	76,627,514
LIABILITIES:		
Current Liabilities:		
Unearned Revenue	7,566,000	-
Accounts Payable	5,799,158	6,989,955
Claims Liabilties	42,500,000	10,500,000
TOTAL CURRENT LIABILITIES	55,865,158	17,489,955
Noncurrent Liabilities:		
Claims Reported	28,603,247	27,831,284
Claims Incurred But Not Reported	61,744,473	22,310,450
TOTAL NONCURRENT LIABILITIES	90,347,720	50,141,734
TOTAL LIABILITIES	146,212,878	67,631,689
NET POSITION:		
Capital Stock	5,000,000	5,000,000
Unrestricted	8,659,207	3,995,825
TOTAL NET POSITION	$ 13,659,207	$ 8,995,825

The notes to the financial statements
are an integral part of this statement.

EXCESS INSURANCE ORGANIZATION, INC
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
OPERATING REVENUES:		
Contributions for Retained Risk	$ 96,982,623	$ 76,851,052
TOTAL OPERATING REVENUES	96,982,623	76,851,052
OPERATING EXPENSES:		
Provision for Claims, Current Year	95,639,941	75,803,096
Provision for Claims, Prior Year	894,779	-
Progam Expense		
Actuarial/Audit	17,000	25,000
Licensing Fees	5,250	5,250
Captive Meetings and Travel	13,095	17,517
Legal Counsel	2,200	16,025
Office Supplies, Websiting Hosting & Misc Expenses	208	5,088
Bank Fees	37,601	21,448
TOTAL OPERATING EXPENSES	96,610,074	75,893,424
TRANSFERS IN OR (OUT):		
Transfer Out for General Administration	(75,000)	(25,000)
TOTAL TRANSFERS	(75,000)	(25,000)
OPERATING INCOME(LOSS)	297,549	932,628
NONOPERATING REVENUES (EXPENSES):		
Investment Income	4,548,276	3,126,187
Investment Expenses	(182,443)	(62,990)
TOTAL NONOPERATING REVENUE (EXPENSES)	4,365,833	3,063,197
CHANGES IN NET POSITION	4,663,382	3,995,825
Net Position, Beginning of Year	3,995,825	-
Capital Stock	5,000,000	5,000,000
NET POSITION, END OF YEAR	$ 13,659,207	$ 8,995,825

The notes to the financial statements
are an integral part of this statement.

EXCESS INSURANCE ORGANIZATION, INC
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Transferred Risk	$ 107,793,413	$ 71,106,262
Claims Paid	(24,328,734)	(15,161,362)
Payments for Internal Activities	(75,000)	(25,000)
Advance on Claim Payments	(1,205,647)	6,976,720
Payments to Suppliers	(60,504)	(77,093)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	82,123,528	62,819,527
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Purchase/Sale of Capital Stock	-	5,000,000
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	-	5,000,000
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Securities	(155,635,700)	(104,554,356)
Sales of Securities	72,682,799	37,481,907
Investment Earnings	2,523,197	870,464
Invesment Expense	(182,443)	(62,990)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(80,612,147)	(66,264,975)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,511,381	1,554,552
CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR	1,554,552	-
END OF YEAR	$ 3,065,933	$ 1,554,552
RECONCILIATION OF INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 297,549	$ 932,628
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Changes in Assets and Liabilities		
Accounts Receivable, Net	3,244,790	(3,244,790)
Unearned Income	7,566,000	-
Prefund Deposit	-	(2,500,000)
Claims Liabilites	72,205,986	60,641,734
Accounts Payable	(1,190,797)	6,989,955
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 82,123,528	$ 62,819,527
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Unrealized gain/(loss) on investments	$ 1,519,625	$ 2,065,696

The notes to the financial statements
are an integral part of this statement.

(1) Organization

The EIO, a component unit of the Authority, provides insurance coverage to the Authority. As part of the Authority, the assets, liabilities, revenues and expenses, and changes in net position of the Captive are included in the consolidated financial statements of the Authority. The Captive is a not for profit corporation formed on June 24, 2016 under the State of Utah rules for nonprofit entities and is governed by its Board of Directors and regulated by the Utah Insurance Department.

The Authority is the sole member of the Captive. The Captive provides coverages for corridors assumed by the Authority within the excess and reinsurance layers of the Authority's various programs. The Captive underwrites fixed corridors of the Authority providing coverages for certain lines of coverage within its property and casualty program including workers' compensation, general liability, and property programs. In fiscal year 2016/17, a loss portfolio was also transferred and covered by the Captive for the Authority's older claims in the Workers' Compensation Program. All coverages are provided on an occurrence basis and feature aggregate loss limits, also known as corridors.

In program year 2017/18, the Captive underwrote the Authority's programs, providing coverage of $103.4M to the corridors spread amongst various programs of the Authority, as follows:

- The Captive retained $10.8M for a corridor in the Authority's $10k to $125k layer in their Primary Workers Compensation Program.
- The Captive retained $44.8M for a corridor in the Authority's layer between members' self-insured retentions to the pool limit ($5M limit for the Core Tower and $2.5M for the Educational Tower) in their Excess Workers Compensation Program.
- The Captive retained $16.4M for a corridor in the Authority's $0-$125k primary layer dedicated to CSURMA in the Excess Workers Compensation Program's Educational Tower.
- The Captive retained $7.5M for a corridor in the Authority's $5M excess $10M layer in their General Liability 1 Program. This corridor was spread over a period of 3 years from July 1, 2015 to June 30, 2018.
- The Captive retained $18M for a corridor in the Authority's members' self-insured retention to $10M layer in their General Liability 2 Program.
- The Captive retained $10.4M for a corridor in the Authority's members' deductibles to $3M layer in their Property Program from March 31, 2018 to March 31, 2019. A prorated risk of $2.6M was recorded in fiscal year 2017/18.
- The Captive retained $500k for a corridor in the Authority's members' $10k to $100k layer in their Primary General Liability Program.

For program year 2016/17, the Captive underwrote the Authority's programs, providing coverage of $84.7M to the corridors spread amongst various programs of the Authority, as follows:

- The Captive retained $6M for a corridor in the Authority's $10k to $125k layer in their Primary Workers Compensation Program.
- The Captive retained $9.8M for a LPT for the period starting July 1, 1997 to June 30, 2004 in the Authority's first dollar to $125k layer in their Primary Workers Compensation Program.
- The Captive retained $22.2M for a corridor in the Authority's members' self-insured retention to $5M layer in their Excess Workers Compensation Program's Core Tower.
- The Captive retained $11.4M for a corridor in the Authority's members' self-insured retention to $2.5M layer in their Excess Workers Compensation Program's Educational Tower.
- The Captive retained $17.8M for a corridor in the Authority's members' self-insured retention to $10M layer in their General Liability 2 Program.
- The Captive retained $10M for a corridor in the Authority's members' deductibles to $3M layer in their Property Program from March 31, 2016 to March 31, 2017.
- The Captive retained $10.4M for a corridor in the Authority's members' deductibles to $3M layer in their Property Program from March 31, 2017 to March 31, 2018. A prorated risk of $2.6M was recorded in fiscal year 2016/17.

(2) Summary of significant account policies

A. *Basis of Presentation*

The accounts of the Captive are organized on the basis of governmental fund accounting. The Captive operates a single enterprise fund, which is considered a separate accounting entity. An enterprise fund is used to account for governmental activities where the intent is that the cost of providing goods or services is financed primarily through user charges.

The financial statements have been prepared in accordance with U. S. Generally Accepted Accounting Principles (GAAP), including all applicable statements of the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a non-profit entity with a governmental entity as its sole member, the Captive follows the accounting standard hierarchy established by the GASB for a special purpose entity engaged solely in business-types activities. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The accounting records are maintained using the economic resources measurement focus and the accrual basis of accounting.

B. ***Cash and Cash Equivalents***

The Captive considers cash in the bank and money market accounts to be cash and cash equivalents.

C. ***Investments***

Investments are recorded (Note 4) at fair value. Investment income is recorded as earned.

D. ***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Interest on investments is recorded in the year the interest is earned, and is considered 100% collectible. The June 30, 2017 and 2018 balances in the receivable accounts are considered 100% collectible.

E. ***Prefunded Deposit***

Upfront payments to the EIA for claims to be paid over future period of time. The EIA holds $2.5M as prefunded deposit from the EIO at June 30, 2018 and 2017.

F. ***Classification of Revenues***

The Captive has classified its revenue as either operating or non-operating revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement 34 including investment income. Revenues and expenses are classified according to the following criteria:

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as insurance premiums, assessments for insured events, and administration fees.
- Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources described in GASB Statement 34, such as investment income and finance charges.

G. ***Expenses***

Expenses are recognized when goods or services are received, or in the case of claims, when the insured event occurs. Expense accrual entries include liabilities for reported claims and liabilities for IBNR claims.

H. ***Contributions for Retained Risk***

The Captive currently retains all risk. Contributions for retained risk are collected from the Authority to fund the corridors and share in the cost of claims within those corridors.

Contributions for retained risk are collected in advance and recognized as revenues in the period for which insurance protection is provided. Workers' compensation program corridors are based on estimated payrolls and are adjusted in the subsequent fiscal year, based on actual payroll data.

I. ***Provision for Claims***

The reserves for losses and LAE include case basis estimates of reported losses, plus supplemental amounts related to IBNR losses. The reserves are based upon management's best estimate, claim adjusters' valuations, and actuarial determinations, and are discounted to a present value using a 3.75% and 4.3% discount rate for fiscal years 2017/18 and 2016/17, respectively. Future adjustments to these amounts resulting from the continuous review process, as well as differences between estimates and ultimate losses, will be reflected in the statement of revenues, expenses, and changes in net position when such adjustments become known. Given the complexity of the reserve process, the ultimate liability may be significantly more or less than such estimates indicate. ULAEs are not reserved by the Captive as they are paid for by the Authority.

J. ***Services***

Services donated by many officers and directors are important to the activities of the Captive. The financial statements do not recognize the value of these donated services, since there is no basis for measuring and valuing these services.

K. ***Income Taxes***

The Captive is organized and operated substantially to provide insurance and reinsurance solely for its member, the Authority, which is a California Joint Powers Authority, who is itself a government entity under Section 115(1) of the Internal Revenue Code of 1986, as amended (or corresponding provisions of any future United States internal revenue law) (the "Code"). By so doing, the Captive provides an essential governmental function within the meaning of section 115(1) of the Code. Furthermore, the Captive is formed exclusively for the purposes for which a corporation maybe formed under the Utah Revised Nonprofit Corporation Act, and not for pecuniary profit or financial gain. The net earnings of the Captive may only accrue to the Authority or, if said organization ceased to exist or to qualify as an entity which may exclude its income from gross income under section 115 of the Code, to one or more state or local government, political subdivisions thereof, or entities which may exclude its income from gross income under section 115 of the Code. The Captive itself is intended to qualify as such an entity and is therefore not subject to Federal or State income taxes.

L. ***Management Estimates***

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes these estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates. The most significant areas that require management estimates relate to the reserves for losses and loss adjustment expenses.

(3) Cash

A. *Cash and Cash Equivalents*

The Captive's cash and cash equivalents at June 30, 2018 and 2017 are reported at fair value and consist of the following:

	June 30, 2018	June 30, 2017
Cash in Bank, General Checking	830,787	278,916
Money Market	2,235,146	1,275,636
Total Cash and Cash Equivalents	$ 3,065,933	$ 1,554,552

B. *Custodial Credit Risk*

The carrying amount of the Captive's total cash in banks was $830,787 at June 30, 2018 and $278,916 at June 30, 2017. The bank balance was $830,994 at June 30, 2018 and $278,916 at June 30, 2017 and was partially insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018, $580,994 is in excess of FDIC insured amounts. As of June 30, 2017, $28,916 is in excess of FDIC insured amounts. Our investment policy does not address custodial credit risk.

(4) Investments

The investments in the financial statements are governed by the Captive's investment policy.

The Captive's investment policy identifies procedures that will foster a prudent and systematic investment program designed to seek the Captive's objectives through a diversified investment portfolio. An appropriate level of risk shall be maintained by purchasing investments within the context of a well-diversified portfolio. Adequate diversification between Equities and Fixed Income securities shall be applied to prevent an undue amount of investment risk with any one area. The Captive strives to achieve returns and control risk by meeting certain asset allocation targets set forth in the Captive's investment policy. The classes of investment that most adequately meet the above mentioned criteria shall be allowed for purchase. They are Equity and Fixed Income investments of U.S. and non-U.S. issuers, Real Estate Investment Trusts and Commodities. The investment policy also lists out some prohibited transactions such as direct short sales of individual securities, direct margin purchases, direct investment in commodities future contracts, direct investment in real estate or direct real estate lending, and hedge funds.

A. *Investment Credit Risk*

The Captive's investments at June 30, 2018 and 2017 are summarized in the following table. The credit quality rating used is Standard and Poor's, a nationally recognized rating agency.

Investments	Credit Quality Rating	June 30, 2018 Fair Value	June 30, 2018 %	June 30, 2017 Fair Value	June 30, 2017 %
U.S. Treasury Notes	AA+	$ 36,132,532	23.5%	$ 14,129,411	20.3%
U.S. Agencies	AA+ to A-1+	13,209,637	8.6%	9,998,328	14.5%
Asset Backed Securities	AAA	1,900,990	1.2%	1,231,526	1.8%
Asset Backed Securities	NR*	1,638,229	1.1%	464,893	0.7%
Corporate Notes	AAA to A+	6,771,710	4.4%	2,342,625	3.4%
Corporate Notes	A to BBB	26,475,943	17.2%	7,461,053	10.8%
Supranationals	AAA to A-1+	1,105,945	0.7%	1,426,529	2.1%
Commercial Paper	A-1+ to A-1	2,098,389	1.4%	876,481	1.3%
Foreign Corporate Notes	AAA to A	2,558,666	1.7%	609,085	0.9%
Negotiable Certificates of Deposit	A-1+ to A-1	499,238	0.3%	-	-
Mortgage Pass Thru	AAA	1,264,714	0.8%	-	-
International Equity	NR	5,663,143	3.7%	1,617,182	2.3%
International Real Estate	NR	1,164,165	0.8%	560,088	0.8%
Large Cap US Equity	NR	20,233,278	13.2%	12,865,679	18.6%
Mid Cap US Equity	NR	6,132,259	4.0%	1,545,198	2.2%
Real Estate	NR	3,194,876	2.1%	1,494,811	2.2%
Emerging Market Equity	NR	5,245,376	3.4%	620,943	0.9%
Small Cap US Equity	NR	18,321,581	11.9%	11,894,313	17.2%
Total Investments		$ 153,610,671	100%	$ 69,138,145	100%

B. *Investment Interest Rate Risk*

The Captive's investment policy limits the interest rate sensitivity of the fixed income portfolio by stipulating the overall duration of the portfolio must be maintained within a range of +/- 20% of the duration, as specified by the Captive and consistent with the appropriate index.

Maturities of investments held at June 30, 2018 consist of the following:

		Investment Maturities		
	Fair Value	Less than 1 Year	One to Five Years	Time to Maturity
U.S. Agencies	$ 13,209,637	$ 3,754,896	$ 9,454,742	1.98
Asset Backed Securities	3,539,219	28,684	3,510,535	2.62
Corporate Mid Term Notes	33,247,653	1,116,555	32,131,098	4.85
Supranationals	1,105,945	-	1,105,945	2.91
Mortgage Pass Thru	1,264,714	-	1,264,714	28.85
Negotiable Certificates of De|	499,238	499,238	-	
Commercial Paper	2,098,389	2,098,389	-	0.28
Foreign Corporate	2,558,666	-	2,558,666	4.76
U.S. Treasuries	36,132,532	3,771,144	32,361,387	4.12
Totals	$ 93,655,993	$ 11,268,906	$ 82,387,087	2.59

The Captive recognizes all investments at fair value in accordance with GASB Statement 31 and GASB Statement 72. Fair value equals estimated market values obtained from the Interactive Data Corporation (IDC) pricing system, a leading provider of financial information to global markets. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Investment income includes unrealized gain of $1.5M and $2.1M for the years ended June 30, 2018 and 2017, respectively.

The calculation of unrealized gains and losses are shown in the following tables:

	June 30, 2018	June 30, 2017
Fair Value at June 30,	$ 153,610,671	$ 69,138,145
Add: Proceeds of Investments Disposed Of	72,682,799	37,481,907
Less: Cost of Investments Purchased	(155,635,700)	(104,554,356)
Less Fair Value at July 1	(69,138,145)	-
Change in Fair Value	$ 1,519,625	$ 2,065,696

Unrealized gains and losses by Asset type for fiscal year 2017/18 are shown below:

	Beginning Fair Value At July 1, 2017	Purchases	Dispositions	Subtotal	Ending Fair Value At June 30, 2018	Change in Fair Value
U.S. Agencies	$ 9,998,328	$ 23,080,924	$ 17,337,834	$ 15,741,417	$ 13,209,637	$ (2,531,780)
Asset Based Securities	1,696,419	4,018,259	2,361,798	3,352,881	3,539,219	186,338
Corporate Notes	9,803,677	28,681,239	3,789,729	34,695,187	33,247,653	(1,447,534)
Certificates of Deposit		998,852	-	998,852	499,238	(499,614)
Commercial Paper	876,481	15,945,111	17,402,869	(581,277)	3,363,104	3,944,380
Supranationals	1,426,529	-	300,000	1,126,529	1,105,945	(20,584)
U.S. Treasuries	14,129,412	44,773,550	21,740,094	37,162,868	36,132,532	(1,030,336)
Foreign Corporate Notes	5,876	3,258,249	-	3,264,125	2,558,666	(705,459)
International Equity	2,220,391	4,110,171	-	6,330,562	5,663,143	(667,419)
International Real Estate	560,088	597,947	-	1,158,035	1,164,165	6,130
Large Cap US Equity	12,865,679	10,000,180	4,708,425	18,157,433	20,233,278	2,075,845
Mid Cap US Equity	1,545,198	4,180,536	-	5,725,734	6,132,259	406,525
Real Estate	1,494,811	1,695,524	-	3,190,335	3,194,876	4,542
Emerging Market Equity	620,943	5,126,654	-	5,747,597	5,245,376	(502,221)
Small Cap US Equity	11,894,313	9,168,504	5,042,050	16,020,768	18,321,581	2,300,813
Totals	$ 69,138,145	$ 155,635,700	$ 72,682,799	$ 152,091,046	$ 153,610,671	$ 1,519,625

C. ***Concentration of Credit Risk***

The Captive's investment policy places long-term asset allocation targets stated below:

	Captive's Target
Equities	0% - 50%
Fixed Income	50% - 100%

1. The equity allocation limitation are specific to the surplus funds of the Captive.
2. The asset manager will be responsible for determining the asset allocation within the targets and rebalance as necessary.
3. The Fixed Income allocation includes the liquidity portion to meet short-term cash flow requirements. The liquidity portfolio will maintain cash and cash equivalents of $250k as required by the Utah Insurance Department.
4. It is further noted the maximum amount of equity exposure, at the time of purchase, will be limited to 40% of the aggregated surplus of the CSAC EIA and the EIO.

The investments in the Captive's portfolio as of June 30, 2017 and 2018 conform to these guidelines.

D. ***Fair Value Measurements***

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factor specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Cash and cash equivalents are not measured at fair value and are not subject to the fair value disclosure requirements.

Following is a description of the valuation methodologies used for assets measured at fair value:

U.S. Agency Bonds, U.S. Treasury Notes, Asset Backed Securities, Corporate Mid-Term Notes, Foreign Corporate Notes, Supranationals and Commercial Paper are valued using Level 2 inputs. International equity, international real estate, large cap equity, mid cap equity, real estate, emerging market equity and small cap U.S. equity are valued using Level 1 inputs.

Level 2 investments are evaluated on market-based measurements that are processed through a rules based pricing application and represent our good faith determination as to what the holder may receive in an orderly transaction (for an institutional round lot position typically $1M or greater current value U.S. dollar or local currency equivalent) under current market conditions.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2017 and 2018.

Investment type	Assets at Fair Value as of June 30, 2018		
	Level 1	Level 2	Level 3
U.S. Agencies	$ -	$ 13,209,637	$ -
Asset Backed Securities	-	3,539,219	-
Corporate Medium Term Notes	-	33,247,653	-
Foreign Corporate Notes	-	2,558,666	-
Supranationals	-	1,105,945	-
Commercial Paper	-	2,098,389	-
U.S. Treasuries	-	36,132,532	-
International Equity	5,663,143	-	-
International Real Estate	1,164,165	-	-
Negotiable Certificates of Deposit	499,238	-	-
Large Cap US Equity	20,233,278	-	-
Mid Cap US Equity	6,132,259	-	-
Real Estate	3,194,876	-	-
Emerging Market Equity	5,245,376	-	-
Small Cap US Equity	18,321,581	-	-
Mortgage Pass Thru	1,264,714	-	-
Total	$ 61,718,630	$ 91,892,041	$ -

Investment type	Assets at Fair Value as of June 30, 2017		
	Level 1	Level 2	Level 3
U.S. Agencies	$ -	$ 9,998,328	-
Asset Backed Securities	-	1,696,419	-
Corporate Mid Term Notes	-	9,803,677	-
Foreign Corporate	-	609,085	-
Supranationals	-	1,426,529	-
Commercial Paper	-	876,481	-
U.S. Treasuries		14,129,412	-
International Equity	1,617,182	-	-
International Real Estate	560,088	-	-
Large Cap US Equity	12,865,679	-	-
Mid Cap US Equity	1,545,198	-	-
Real Estate	1,494,811	-	-
Emerging Market Equity	620,943	-	-
Small Cap US Equity	11,894,313	-	-
	$ 30,598,214	$ 38,539,931	$ -

E. ***Foreign Currency Risk***

Per the investment policy, fixed income investments must be denominated in U.S. dollars, but investments can be made in both U.S. and non-U.S. issuers. The equity portion of the portfolio has exposure to international investments and is exposed to some foreign currency risk; however, all returns are converted back into U.S. dollars.

(5) Reserves for Losses and Loss Adjustment Expenses

The Captive establishes claim liabilities based on estimates of the ultimate cost of claims (including claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques. Claim liability estimates reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims cost is implicit in the calculation because reliance is placed both on actual historic data that reflects past inflation, and on other factors that are considered to be approximate modifiers of past experience. Adjustments to claim liabilities are charged, or credited, to expense in the period in which they are made.

The claim liabilities in all programs are established at a level which includes investment income on monies set aside to pay claims, that is, on a discounted basis. Total claim liabilities at June 30, 2018 of $149M have been presented at the net present value of $133M, using a 3.75% discount rate. For fiscal year June 30, 2017, total claim liabilities of $68M have been presented at the net present value of $61M, using a 4.3% discount rate.

Annually, the actuaries and staff evaluate the discount rate to be used for the actuarial valuation of claim liabilities. This is of particular importance for the Excess Workers' Compensation Program and the General Liability 1 Program, because claim liabilities are paid over a longer period of time. The rates in each program could vary because of the claims payout pattern. The following represents undiscounted and discounted claims liabilities as of June 30, 2018 by each line of coverage:

	Claims Liabilities As of June 30, 2018	
Programs	**Undiscounted**	**Discounted**
Primary Workers Compensation Program	14,656,107	$ 13,562,297
Excess Workers Compensation Program	88,427,402	76,658,052
Primary General Liability Program	367,726	354,488
General Liability 1 Program	7,500,000	7,132,500
General Liability 2 Program	35,024,762	32,702,989
Property Program	2,598,157	2,437,394
Total	**$ 148,574,154**	**$ 132,847,720**

The following represents undiscounted and discounted claims liabilities as of June 30, 2017 by each line of coverage:

	Claims Liabilities As of June 30, 2017	
Programs	**Undiscounted**	**Discounted**
Primary Workers Compensation Program	$ 11,695,678	$ 10,202,970
Excess Workers Compensation Program	31,169,735	26,905,422
General Liability 1 Program	5,000,000	4,503,143
General Liability 2 Program	17,801,550	16,516,162
Property Program	2,567,520	2,514,037
Total	**$ 68,234,483**	**$ 60,641,734**

The following represents changes in those aggregate liabilities on a discounted basis for the Captive for the years ended June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
A. Unpaid claims and claim adjustment expenses at the beginning of the fiscal year	$ 60,641,734	$ -
Incurred claims and claim adjustment expenses:		
Provision for claims of the current fiscal year	95,639,941	75,803,096
Increase (Decrease) in the provision for claims of prior fiscal years	894,779	-
B. Total incurred claims and claim adjustment expenses	96,534,720	75,803,096
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	14,402,517	15,161,362
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	9,926,217	-
C. Total Payments	24,328,734	15,161,362
D. Total unpaid claims and claim adjustment expenses at the end of the fiscal year (A+B-C)	$ 132,847,720	$ 60,641,734
Current Claim Liabilities	$ 42,500,000	$ 10,500,000
Noncurrent Claim Liabilities	90,347,720	50,141,734
Total Claim Liabilities	$ 132,847,720	$ 60,641,734

(6) Net Position

Net Position represents the capital stock of $5M, and unrestricted net position of $8.7M as of June 30, 2018, for a total of $13.7M. At June 30, 2017, Net Position represented the capital stock of $5M, and unrestricted Net Position of $4M for a total of $9.0M. The unrestricted Net Position balances are available for future operations or distribution.

(7) Related Party Transactions

Related party transactions result from premiums written, losses and loss adjustment expenses, incurred from insurance coverage provided to the Authority by EIO. Total premiums written were \$97.0M and \$76.9M for the fiscal years ended June 30, 2018 and 2017, respectively.

Various payments were made by the Authority on behalf of the Captive, including claim payments and services overhead allocations, in the amount of \$24.3M for the year ended June 30, 2018, of which \$5.8M is unpaid as of June 30, 2018. For the year ended June 30, 2017, the Authority had paid \$12.7M on behalf of the Captive, out of which \$7.0M was unpaid at June 30, 2017. Unpaid amounts as of June 30, 2017 and 2018 are reported as Accounts Payable in the statements of Net Position.

The EIO received \$10.1M from the EIA for revenues in the property program for the period March 31, 2018 to March 31, 2019. \$7.6M was reflected as deferred revenue in the financial statements as of June 30, 2018.

The EIO paid the EIA a prefunded deposit in the property program to front monies for payment of claims. As of June 30, 2018 and 2017, the EIO reflected \$2.5M as prefunded deposit in the financial statements.

(8) Service Agreements

The Captive has no employees. The Authority provides regulatory, accounting, records retention, and other related services. Expenses under this agreement are included in the Statement of Revenues, Expenses and Changes in Net Position transfers out for general administration and totaled \$75k for the year ended June 30, 2018 and \$25k for the year ended June 30, 2017.

REQUIRED SUPPLEMENTAL INFORMATION

EXCESS INSURANCE ORGANIZATION, INC.
RECONCILIATION OF UNPAID CLAIMS LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018 AND 2017

		Primary Workers' Compensation	Excess Workers' Compensation	Primary General Liability	General Liability 1	General Liability 2	Property	Total June 30, 2018	Total June 30, 2017
A.	Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Fiscal Year	$ 10,202,970	$ 26,905,422	$ -	$ 4,503,143	$ 16,516,162	$ 2,514,037	$ 60,641,734	$ -
	Incurred Claims and Claim Adjustment Expenses:								
	Provision for Claims								
	Current Fiscal Year	12,633,079	53,053,749	486,762	2,584,357	16,589,275	10,292,719	95,639,941	75,803,096
	Prior Fiscal Years	(1,340,625)	1,842,851	-	45,000	347,553	-	894,779	-
B.	Total Incurred	11,292,454	54,896,600	486,762	2,629,357	16,936,828	10,292,719	96,534,720	75,803,096
	Payments:								
	Attributable to insured events of the								
	Current Fiscal Year	2,355,382	4,113,019	132,274	-	-	7,801,842	14,402,517	15,161,362
	Prior Fiscal Years	5,577,747	1,030,951	-	-	750,000	2,567,519	9,926,217	-
C.	Total Payments	7,933,129	5,143,970	132,274	-	750,000	10,369,361	24,328,734	15,161,362
	Total Unpaid Claims and Claim Claim Adjustment Expenses at								
D.	End of the Fiscal Year (A+B-C)	$ 13,562,295	$ 76,658,052	$ 354,488	$ 7,132,500	$ 32,702,990	$ 2,437,395	$ 132,847,720	$ 60,641,734
	Claims Reported	$ 13,562,295	$ 28,263,766	$ 121,429	$ 7,132,500	$ 20,498,291	$ 1,524,966	$ 71,103,247	$ 24,649,548
	Claims Incurred But Not Reported	-	48,394,285	233,059	-	12,204,699	912,429	61,744,473	35,992,186
	Unallocated Loss Adjustment Expenses	-	-	-	-	-	-	-	-
	Total Claim Liabilities	$ 13,562,295	$ 76,658,051	$ 354,488	$ 7,132,500	$ 32,702,990	$ 2,437,395	$ 132,847,720	$ 60,641,734
	Current Claim Liabilities	$ 10,819,984	$ 12,800,946	$ 354,488	$ 4,815,029	$ 11,272,158	$ 2,437,395	$ 42,500,000	$ 10,500,000
	Noncurrent Claim Liabilities	2,742,311	63,857,105	-	2,317,471	21,430,832	-	90,347,720	50,141,734
	Total Claim Liabilities	$ 13,562,295	$ 76,658,051	$ 354,488	$ 7,132,500	$ 32,702,990	$ 2,437,395	$ 132,847,720	$ 60,641,734

EXCESS INSURANCE ORGANIZATION, INC.
RECONCILIATION OF UNPAID CLAIMS LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Primary Workers' Compensation	Excess Workers' Compensation	General Liability 1	General Liability 2	Property	Total June 30, 2017
Unpaid Claims and Claim Adjustment Expenses at the A. Beginning of the Fiscal Year	$ -	$ -	$ -	$ -	$ -	$ -
Incurred Claims and Claim Adjustment Expenses:						
Provision for Claims						
Current Fiscal Year	14,089,711	28,147,563	4,503,143	16,516,162	12,546,517	75,803,096
Prior Fiscal Years	-	-	-	-	-	-
B. Total Incurred	14,089,711	28,147,563	4,503,143	16,516,162	12,546,517	75,803,096
Payments:						
Attributable to insured events of the						
Current Fiscal Year	3,886,741	1,242,141	-	-	10,032,480	15,161,362
Prior Fiscal Years	-	-	-	-	-	-
C. Total Payments	3,886,741	1,242,141	-	-	10,032,480	15,161,362
Total Unpaid Claims and Claim Claim Adjustment Expenses at						
D. End of the Fiscal Year (A+B-C)	$ 10,202,970	$ 26,905,422	$ 4,503,143	$ 16,516,162	$ 2,514,037	$ 60,641,734
Claims Reported	$ 9,466,192	$ 7,543,841	$ 4,503,143	$ 463,897	$ 2,672,476	$ 24,649,548
Claims Incurred But Not Reported	736,778	19,361,581	-	16,052,265	(158,439)	35,992,186
Unallocated Loss Adjustment Expenses	-	-	-	-	-	-
Total Claim Liabilities	$ 10,202,970	$ 26,905,422	$ 4,503,143	$ 16,516,162	$ 2,514,037	$ 60,641,734
Current Claim Liabilities	$ 5,064,724	$ 1,232,709	$ -	$ 1,688,530	$ 2,514,037	$ 10,500,000
Noncurrent Claim Liabilities	5,138,246	25,672,713	4,503,143	14,827,632	-	50,141,734
Total Claim Liabilities	$ 10,202,970	$ 26,905,422	$ 4,503,143	$ 16,516,162	$ 2,514,037	$ 60,641,734

EXCESS INSURANCE ORGANIZATION, INC.
REQUIRED SUPPLEMENTAL INFORMATION
NOTES TO EARNED PREMIUMS AND CLAIMS DEVELOPMENT INFORMATION
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2018

The following schedule illustrates how earned premiums (net of reinsurance) and investment income of the Fund compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each of the last 10 years. The rows of the schedule are defined as follows:

1. This line shows the total of each fiscal year's earned premium, revenues ceded to reinsurers and stop-loss policies, and investment revenues. The total revenues are net of dividends returned to members.
2. This line shows the amount of reported unallocated claim adjustment expenses and reported other costs not allocated to individual claims.
3. This line shows incurred claims and allocated claim adjustment expense of the Fund (both paid and accrued) as originally reported at the end of the first year in which the event occurred that triggered coverage under the contract (called policy year).
4. This section of rows shows the cumulative amounts paid as of the end of each successive year for each policy year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section of rows shows how each policy year’s incurred claims increased or decreased as of the end of each successive year. These annual reestimations result from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
7. This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the schedule show data for successive policy years.

EXCESS INSURANCE ORGANIZATION, INC.
SCHEDULE OF EARNED PREMIUM AND CLAIMS DEVELOPMENT
FOR THE TEN YEAR PERIOD ENDED JUNE 30, 2018

	POLICY YEAR	June 30, 2017	June 30, 2018
	Earned Premiums	$ 78,109,714	$ 95,723,961
	Less Ceded	-	-
	Supplemental Assessments	-	-
	Dividends Declared	-	-
	Investment Earnings	4,809,387	2,320,666
1.	Total Revenues Available For Payment of Claims	82,919,101	98,044,627
2.	Unallocated Loss Adjustment Expense	115,328	150,354
3.	Estimated Incurred Claims	75,803,096	93,571,460
	Less Ceded Claims	-	-
	Net Incurred Claims and Expenses, End of Policy Year	75,803,096	93,571,460
4.	Cumulative Paid Claims as of:		
	End of the Policy Year	15,161,362	14,402,517
	One Year Later	25,087,580	-
	Two Years Later	-	-
	Three Years Later	-	-
	Four Years Later	-	-
	Five Years Later	-	-
	Six Years Later	-	-
	Seven Years Later	-	-
	Eight Years Later	-	-
	Nine Years Later	-	-
5.	Reestimated Ceded Claims and Expenses	-	-
6.	Reestimated Incurred Claims and Expenses		
	End of the Policy Year	75,803,096	93,571,460
	One Year Later	78,766,357	-
	Two Years Later	-	-
	Three Years Later	-	-
	Four Years Later	-	-
	Five Years Later	-	-
	Six Years Later	-	-
	Seven Years Later	-	-
	Eight Years Later	-	-
	Nine Years Later	-	-
7.	Increase (Decrease) in Estimated Incurred Claims and Expense from End of the Policy Year	$ 2,963,261	$ -