Excess Insurance Organization Inc.

FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

REPORT OF INDEPENDENT AUDITORS

EXCESS INSURANCE ORGANIZATION, INC.

Fiscal Years Ended June 30, 2019 and 2018

Table of Contents

December 11, 2019

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, 2019, the Captive celebrated completion of the third 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. Additionally, in 2018/19, the Captive covered an earthquake quota share risk that was an actuarial risk in the Authority's property program from March 31, 2019 to March 31, 2020. In total, the Captive covered risks of $349M across all participating programs in years ended June 30, 2019.

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 6.59% for the year ended June 30, 2019, compared to a rate of return on the Authority portfolio of 4.49% for the same period. The return on the Captive's equity portfolio was 5.12% for the year ended June 30, 2019. The overall return consolidated for the Authority and the Captive was 5.06% for the year ended June 30, 2019 compared to .87% for the year ended June 30, 2018.

In October 2018, expansion of operations beyond California was authorized. National Expansion will enable the Authority to reach outside of the State of California to spread and diversify risk, leverage reinsurance markets, and identify and implement industry wide best practices. Actual implementation will be on a program-by-program basis, as directed and approved by the Authority's Board. It is anticipated documents will be finalized and a marketing campaign will commence in near future.

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 CPAs, Certified Public Accountants, has issued an unmodified opinion that the Captive's financial statements, for the fiscal years ended June 30, 2019 and 2018, 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, CPA
Chief Financial Officer

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, 2019 and 2018, 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, 2019 and 2018, 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 December 4, 2019, 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 solely 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 the effectiveness of the Captive's 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 CPAs

GILBERT CPAs
Sacramento, California

December 4, 2019

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, 2019 and 2018. 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, 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, 2019 and 2018; 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, 2019 and 2018; the Statement of Cash Flows, which displays information pertaining to cash receipts and disbursements for the years ended June 30, 2019 and 2018; 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 14 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. In 2018/19, the Captive covered an earthquake quota share risk in the Authority's property program from March 31, 2019 to March 31, 2020. The Captive took on an aggregated risk of $10M for a premium of $168k. This layer is not fully funded to the aggregate but the actuarially calculated expected loss in this layer is $0. Fiscal Year 2018/19 also includes Corridor risk of $48.8M resulting from the EIA's Loss Portfolio Transfer deal with MultiStrat Re. All coverages provided are on an occurrence basis.
Following is the breakdown of undiscounted ultimate losses of the Captive for the 2016/17,

2017/18 and 2018/19 program years:

Programs	Ultimate Losses 2018/19	Ultimate Losses 2017/18	Ultimate Losses 2016/17
Primary Workers Compensation Program	$ 14,261,623	$ 10,878,546	$ 15,726,754
Excess Workers Compensation Program	55,324,268	62,611,469	33,534,748
Primary General Liability Program	1,114,909	500,000	-
General Liability 1 Program	51,328,708	2,500,000	5,000,000
General Liability 2 Program	24,500,000	17,973,212	17,801,550
Property Program	10,400,000	10,400,000	12,600,000
Total	**$ 156,929,508**	**$ 104,863,227**	**$ 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. In 2018/19, the Captive filed for approval to take on an earthquake quota share risk in the Authority's property program from March 31, 2019 to March 31, 2020. The Captive also filed for approval of an additional corridor in the Authority's GL1 program resulting from a Loss Portfolio Transfer deal entered by the Authority with MultiStrat Re in fiscal year 2018/19. Both transactions were 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, 2019, 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, 2019, 2018 and 2017 are summarized as follows:

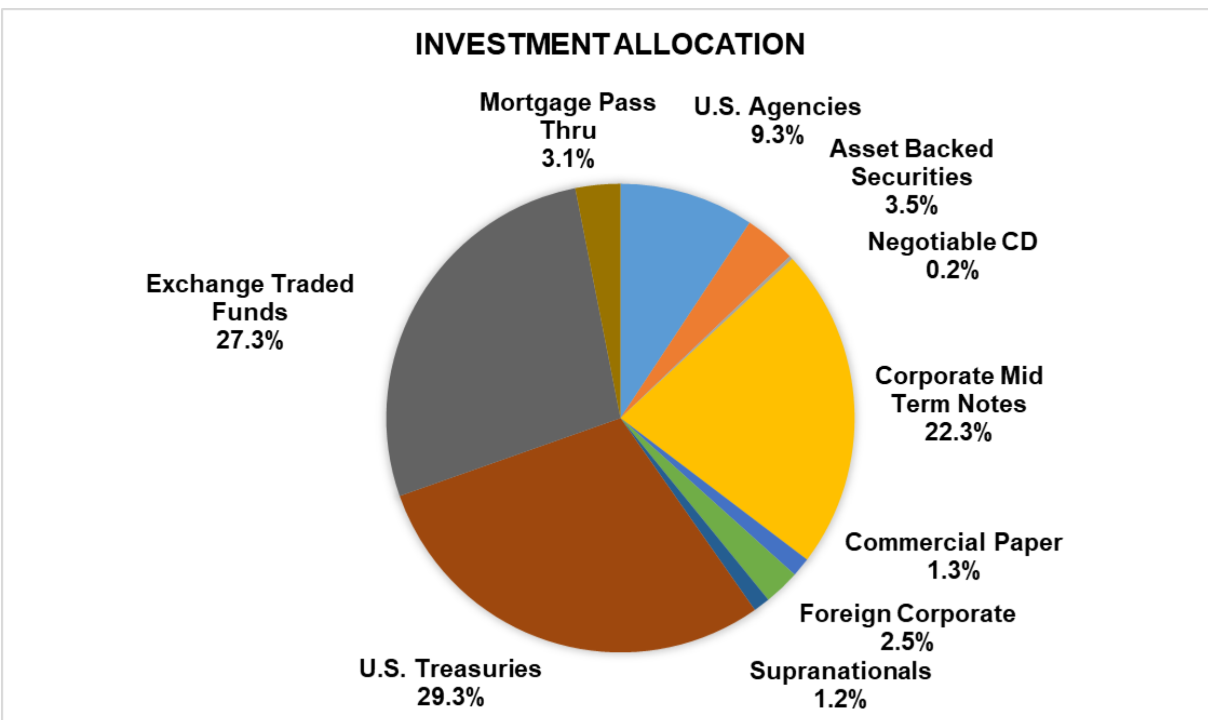
	June 30, 2019	June 30, 2018	June 30, 2017
Cash and Cash Equivalents	$ 5,622,719	$ 3,065,933	$ 1,554,552
Investments	231,568,828	153,610,671	69,138,145
Other Assets	43,824,980	3,195,481	5,934,817
Total Assets	281,016,527	159,872,085	76,627,514
Current Liabilities	103,826,494	55,865,158	17,489,955
Non Current Liabilities	153,032,671	90,347,720	50,141,734
Total Liabilities	256,859,165	146,212,878	67,631,689
Capital Stock	5,000,000	5,000,000	5,000,000
Unrestricted Net Position	19,157,362	8,659,207	3,995,825
Total Net Position	$ 24,157,362	$ 13,659,207	$ 8,995,825

Assets: The assets of the Captive totaled $281M at June 30, 2019 as compared to $159.9M as of June 30, 2018 and $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 $139.7M in fiscal year 2018/19, $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 include investment income receivable, due from members, prepaid expenses, due from Carrier and a prefunded deposit fronted by the Captive to the Authority for claim payments in the Property Program.

At June 30, 2019, 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 portfolios 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, 2019 are summarized as follows:



Liabilities*:* The liabilities of the Captive totaled $256.9M at June 30, 2019, $146.2M in 2018 and $67.6M in 2017. The liabilities are mainly comprised of 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 and 2018/19. Liabilities also include $38.5M discounted Loss Portfolio transfer for General Liability 1 Program. Accounts Payable relate to the claims paid by the Authority billed back to the Captive for the latter part of fiscal years 2019, 2018 and 2017. The unearned revenue is from the Property Program corridor that runs from March 31 to March 31.

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, 2019, 2018 and 2017 are summarized as follows:

Reserves and IBNR As of June 30,			
Programs	**2019**	**2018**	**2017**
Primary Workers Compensation Program	$ 15,753,661	$ 13,562,295	$ 10,202,970
Excess Workers Compensation Program	110,284,184	76,658,052	26,905,422
Primary General Liability Program	1,044,406	354,488	-
General Liability 1 Program	40,903,284	7,132,500	4,503,143
General Liability 2 Program	44,729,544	32,702,990	16,516,162
Property Program	2,317,592	2,437,395	2,514,037
Total	**$ 215,032,671**	**$ 132,847,720**	**$ 60,641,734**

Net Position: Net position was in a surplus and totaled $24.2M at June 30, 2019, $13.7M at June 30, 2018 and $9M as of June 30, 2017. These amounts include $5M Capital Stock issued by the Captive for the paid in capital contributed by the Authority.

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, 2019. 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, 2019, 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, 2019, 2018 and, 2017 are summarized as follows:

	June 30, 2019	June 30, 2018	June 30, 2017
Operating Revenues:			
Contributions for Retained Risk	$ 139,666,969	$ 96,982,623	$ 76,851,052
Total Operating Revenues	139,666,969	96,982,623	76,851,052
Operating Expenses:			
Provisions for Claims	141,872,741	96,534,720	75,803,096
Other Expenses	196,981	150,354	115,328
*Total Operating Expenses	142,069,722	96,685,074	75,918,424
Operating Income (Loss)	(2,402,753)	297,549	932,628
NonOperating Revenues (Expenses):			
Investment Income and Financing Fees	12,900,908	4,365,833	3,063,197
Total NonOperating Revenues (Expenses)	12,900,908	4,365,833	3,063,197
Changes in Net Position	10,498,155	4,663,382	3,995,825
Net Position Beginning of Year	8,659,207	3,995,825	
Capital Stock	5,000,000	5,000,000	5,000,000
Ending Balance, June 30	$ 24,157,362	$ 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 $139.7M for the year ended June 30, 2019, compared to $97M for the year ended June 30, 2018 and $76.9M for the year ended June 30, 2017. The lines of coverage included workers' compensation, general liability, and property in all three 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, conservatively discounted at rates set by the Authority's governing bodies and the Captive's Boards of Directors.

Direct written premiums by line of business in the fiscal years 2018/19, 2017/18 and 2016/17 are summarized as follows:

	Direct Written Premium		
Programs	**FY 2018/19**	**FY 2017/18**	**FY 2016/17**
Primary Workers Compensation Program	$ 13,956,633	$ 10,345,761	$ 14,384,693
Excess Workers Compensation Program	51,507,971	57,409,507	29,818,933
Primary General Liability Program	1,081,462	460,000	-
General Liability 1 Program	40,940,903	2,300,000	4,600,000
General Liability 2 Program	22,050,000	16,535,355	16,377,426
Property Program	10,130,000	9,932,000	11,670,000
Total	**$ 139,666,969**	**96,982,623**	**76,851,052**

The Captive's total net incurred losses and LAE, excluding IBNR, totaled $202M, as of June 30, 2019 as compared to $110.6M as of June 30, 2018 and $39.8M as of June 30, 2017. Total incurred losses and LAE for the years ended June 30, 2019, 2018 and 2017 by line of coverage are summarized as follows:

	Incurred Losses, and LAE as of June 30,		
Programs	**2019**	**2018**	**2017**
Primary Workers Compensation Program	$ 35,786,354	$ 25,382,166	$ 13,352,933
Excess Workers Compensation Program	87,213,177	34,649,877	8,785,982
Primary General Liability Program	795,403	253,703	-
General Liability 1 Program	7,500,000	7,132,500	4,503,143
General Liability 2 Program	37,079,412	21,248,290	463,897
Property Program	33,603,032	21,926,807	12,704,956
Total	**$ 201,977,378**	**$ 110,593,343**	**$ 39,810,910**

The Captive's other operating expenses totaled $197k for the year ended June 30, 2019 as compared to $150k for fiscal year 2017/18 and $115k for fiscal year 2016/17. 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 $13.2M during the year ended June 30, 2019 as compared to $4.5M in fiscal year 2017/18 and $3.1M in fiscal year 2016/17. The investment expense for the year ended June 30, 2019, was $267k reducing the total non-operating revenue to $12.9M. 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. Included in the investment income is unrealized gain of $8.1M recorded in fiscal year 2018/19 as compared to $1.5M unrealized gain in 2017/18 and $2.1M unrealized gain in 2016/17. These resulted from increase in fair market values of the Captive's securities at the end of each fiscal year.

Budget to Actual Comparison

The Captive's actual operating revenues totaled $152.8M compared to budget of $107.3 for the year ended June 30, 2019. The lines of coverage included workers' compensation, general liability, and property. Major contributing factor for the increase in the actual revenue compared to budgeted revenue, is $38.5M Loss Portfolio Transfer for GL 1 Program with a corresponding increase in expenses for Provisions for Claims in Prior Year. In addition, investment income increased by 3.1M due to positive market performance in 2018/19. All programs exceeded the budgeted revenue. Program administration costs include; investment management fee, travel, State of Utah Captive fees, and banking and custody services. Actual investment management fee and travel costs were $34K, $12K less than the budgeted costs for 2018/19 respectively.

	Final Budget	Actual Results	Variance ($)
Revenues:			
Contributions for Retained Risk	$ 97,340,490	139,666,969	42,326,479
Investment Income	10,000,000	13,167,842	3,167,842
Total Revenues	107,340,490	152,834,811	45,494,321
Expenses:			
Provision for Claims Current Year	91,787,000	97,879,956	(6,092,956)
Provision for Claims Prior Year	1,500,000	43,992,785	(42,492,785)
Program Administration	516,850	463,915	52,935
Appropriation for Contingencies	25,000	-	25,000
Total Expenses	93,828,850	142,336,656	(48,507,806)
Total Income (Loss)	$ 13,511,640	$ 10,498,155	$ (3,013,485)
Change in Net Position	$ 13,511,640	$ 10,498,155	
Beginning Net Position Balance July 1, 2018	10,617,576	8,659,207	
Capital Stock	5,000,000	5,000,000	
Ending Net Position Balance, June 30, 2019	$ 29,129,216	$ 24,157,362	

Economic Factors that will affect the Future

Investment Factors

The Captive faces many factors that can affect the value of investments including concentration of credit risk, the current state of the US and global economic outlook, geopolitical risks and systemic risks which 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.

EXCESS INSURANCE ORGANIZATION INC
STATEMENT OF NET POSITION
JUNE 30, 2019 AND 2018

	June 30, 2019	June 30, 2018
ASSETS:		
Current Assets:		
Cash in Banks	$ 333,707	$ 830,787
Cash, Treasury	5,289,012	2,235,146
TOTAL CASH & CASH EQUIVALENTS	5,622,719	3,065,933
Investments	28,155,116	11,268,906
Accounts Receivable		
Due from Members	1,744,730	-
Investment Income Receivable	1,057,300	695,481
Prepaid Expense	6,950	-
Prefunded Deposit	2,500,000	2,500,000
Due from EIA	38,516,000	-
TOTAL CURRENT ASSETS	77,602,815	17,530,320
Noncurrent Assets:		
Investments	203,413,712	142,341,765
TOTAL NONCURRENT ASSETS	203,413,712	142,341,765
TOTAL ASSETS	281,016,527	159,872,085
LIABILITIES:		
Current Liabilities:		
Unearned Revenue	7,692,000	7,566,000
Accounts Payable	34,134,494	5,799,158
Claims Liabilities	62,000,000	42,500,000
TOTAL CURRENT LIABILITIES	103,826,494	55,865,158
Noncurrent Liabilities:		
Claims Reported	40,799,490	28,603,247
Claims Incurred But Not Reported	112,233,181	61,744,473
TOTAL NONCURRENT LIABILITIES	153,032,671	90,347,720
TOTAL LIABILITIES	256,859,165	146,212,878
NET POSITION:		
Capital Stock	5,000,000	5,000,000
Unrestricted	19,157,362	8,659,207
TOTAL NET POSITION	$ 24,157,362	$ 13,659,207

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, 2019 AND 2018

	June 30, 2019	June 30, 2018
OPERATING REVENUES:		
Contributions for Retained Risk	$ 139,666,969	$ 96,982,623
TOTAL OPERATING REVENUES	139,666,969	96,982,623
OPERATING EXPENSES:		
Provision for Claims, Current Year	97,879,956	95,639,941
Provision for Claims, Prior Years	43,992,785	894,779
Program Expense		
Actuarial/Audit	17,500	17,000
Licensing Fees	5,250	5,250
Captive Meetings and Travel	9,835	13,095
Legal Counsel	14,997	2,200
Office Supplies, Website Hosting & Misc. Expenses	657	208
Bank Fees	48,742	37,601
TOTAL OPERATING EXPENSES	141,969,722	96,610,074
TRANSFERS IN OR (OUT):		
Transfer Out for General Administration	(100,000)	(75,000)
TOTAL TRANSFERS	(100,000)	(75,000)
OPERATING INCOME(LOSS)	(2,402,753)	297,549
NONOPERATING REVENUES (EXPENSES):		
Investment Income	13,167,842	4,548,276
Investment Expenses	(266,934)	(182,443)
TOTAL NONOPERATING REVENUE (EXPENSES)	12,900,908	4,365,833
CHANGES IN NET POSITION	10,498,155	4,663,382
Net Position, Beginning of Year	8,659,207	3,995,825
Capital Stock	5,000,000	5,000,000
NET POSITION, END OF YEAR	$ 24,157,362	$ 13,659,207

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, 2019 AND 2018

	June 30, 2019	June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Transferred Risk	$ 99,532,239	$ 107,793,413
Claims Paid	(31,352,454)	(24,328,734)
Payments for General Administration	(100,000)	(75,000)
Payments to Others	(18,734)	(1,205,647)
Payments to Suppliers	(85,197)	(60,504)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	67,975,854	82,123,528
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Securities	(211,732,605)	(155,635,700)
Sales of Securities	141,912,548	72,682,799
Investment Earnings	4,667,923	2,523,197
Investment Expense	(266,934)	(182,443)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(65,419,068)	(80,612,147)
INCREASE IN CASH AND CASH EQUIVALENTS	2,556,786	1,511,381
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	3,065,933	1,554,552
END OF YEAR	$ 5,622,719	$ 3,065,933
RECONCILIATION OF INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ (2,402,753)	$ 297,549
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Changes in Assets and Liabilities		
Accounts Receivable, Net	(1,744,730)	3,244,790
Prepaid Expenses	(6,950)	-
Due from EIA	(38,516,000)	-
Unearned Income	126,000	7,566,000
Claims Liabilities	82,184,951	72,205,986
Accounts Payable	28,335,336	(1,190,797)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 67,975,854	$ 82,123,528
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Unrealized gain/(loss) on investments	$ 8,138,100	$ 1,519,625

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, 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 Primary Workers' Compensation Program. All coverages are provided on an occurrence basis and feature aggregate loss limits, also known as corridors.

In program year 2018/19, the Captive underwrote the Authority's programs, providing coverage of $156.9M to the corridors spread amongst various programs of the Authority, as follows:

- The Captive retained $14.3M for a corridor in the Authority's $10k to $125k layer in their Primary Workers Compensation Program.
- The Captive retained $48.3M 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 $7.0M 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 $2.5M for a corridor in the Authority's $5M excess $10M layer in their General Liability 1 Program, a $1.1M for the Deductible Buy Down Program, and $48.8M for the GL 1 Loss Portfolio Transfer in FY 2018/19

  The corridor for the Authority's $5M excess $10M layer is $10M and will be spread over a period of 3 years from July 1, 2018 to June 30, 2021.
- The Captive retained $24.5M 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, 2019 to March 31, 2020. A prorated risk of $2.6M was recorded in fiscal year 2019/20.

In program year 2017/18, the Captive underwrote the Authority's programs, providing coverage of $104.9M to the corridors spread amongst various programs of the Authority, as follows:

- The Captive retained $10.9M for a corridor in the Authority's $10k to $125k layer in their Primary Workers Compensation Program.
- The Captive retained $45.7M 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 $16.9M 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.

(2) Summary of Significant Accounting 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, 2018 and 2019 balances in the receivable accounts are considered 100% collectible.

E. ***Prefunded Deposit***

Prefund Deposit represents upfront payments to the EIA for claims to be paid in the future. The EIA holds $2.5M as prefunded deposit from the EIO at June 30, 2019 and 2018.

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 present value using a 3.45% and 3.75% discount rate for fiscal years 2018/19 and 2017/18, 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. The Authority is a California Joint Powers Authority, and is considered 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").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 may be 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 governments, 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, 2019 and 2018 are reported at fair value and consist of the following:

	June 30, 2019	June 30, 2018
Cash in Bank, General Checking	333,707	830,787
Money Market	5,289,012	2,235,146
	5,622,719	3,065,933

B. ***Custodial Credit Risk***

The carrying amount of the Captive's total cash in banks was $333,707 at June 30, 2019 and $830,787 at June 30, 2018. The bank balance was $333,707 at June 30, 2019 and $830,994 at June 30, 2018 and these balances were partially insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2019 and June 30, 2018, $83,707 and $580,994 are in excess of FDIC insured amounts respectively. The Captive's 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 investments 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, 2019 and 2018 are summarized in the following table. The credit quality rating used is Standard and Poor's, a nationally recognized rating agency.

		June 30, 2019		June 30, 2018	
Investments	Credit Quality Rating	Fair Value	%	Fair Value	%
U.S. Treasury Notes	AA+	$ 67,936,925	29.3%	$ 36,132,532	23.5%
U.S. Agencies	AA+ to A-1+	21,545,267	9.3%	13,209,637	8.6%
Asset Backed Securities	AAA	4,262,639	1.8%	1,900,990	1.2%
Asset Backed Securities	NR*	3,997,773	1.7%	1,638,229	1.1%
Corporate Notes	AAA to A+	6,882,747	3.1%	6,771,710	4.4%
Corporate Notes	A to BBB	44,553,600	19.2%	26,475,943	17.2%
Supranationals	AAA to A-1+	1,139,927	0.5%	1,105,945	0.7%
Supranationals	NR*	1,507,973	0.7%	-	0.0%
Commercial Paper	A-1+ to A-1	3,067,937	1.3%	2,098,389	1.4%
Foreign Corporate Notes	AAA to A	5,741,235	2.5%	2,558,666	1.7%
Negotiable Certificates of Deposit	A-1+ to A-1	550,632	0.2%	499,238	0.3%
Mortgage Pass Thru	Aaa	7,169,416	3.1%	1,264,714	0.8%
International Equity	NR	9,443,478	4.1%	5,663,143	3.7%
International Real Estate	NR	1,258,906	0.5%	1,164,165	0.8%
Large Cap US Equity	NR	15,368,560	6.6%	20,233,278	13.2%
Mid Cap US Equity	NR	6,274,209	2.7%	6,132,259	4.0%
Real Estate	NR	5,748,735	2.5%	3,194,876	2.1%
Emerging Market Equity	NR	6,193,559	2.7%	5,245,376	3.4%
Small Cap US Equity	NR	18,925,311	8.2%	18,321,581	11.9%
Total Investments		$ 231,568,828	100%	$ 153,610,671	100%

NR - Not Rated
NR* - Not rated by Standard & Poor's. However, rated Aaa by Moody's.

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, 2019 consist of the following:

	Fair Value	Less than 1 Year	One to Five Years	Time to Maturity
U.S. Agencies	$ 21,545,267	$ 7,875,585	$ 13,669,682	5.17
Asset Backed Securities	8,260,412	4,646	8,255,766	2.84
Corporate Mid Term Notes	51,436,347	1,901,821	49,534,526	30.69
Supranationals	2,647,899	-	2,647,899	0.73
Mortgage Pass Thru	7,169,416	-	7,169,416	24.81
Negotiable CDs	550,632	550,632	-	0.02
Commercial Paper	3,067,937	3,067,937	-	0.05
Foreign Corporate	5,741,235	-	5,741,235	2.71
U.S. Treasuries	67,936,925	14,754,495	53,182,430	30.70
Totals	$ 168,356,070	$ 28,155,116	$ 140,200,954	3.49

*Excludes Exchange Traded Funds (ETF) which has a maturity more than 5 years

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

	Fair Value	Less than 1 Year	One to Five Years	Time to Maturity
U.S. Agencies	13,209,636.97	3,754,895.47	9,454,741.75	1.98
Asset Backed Securities	3,539,218.73	28,683.95	3,510,534.78	2.62
Corporate Mid Term Notes	33,247,653.05	1,116,555.12	32,131,097.93	4.85
Supranationals	1,105,944.90	-	1,105,944.90	2.91
Mortgage Pass Thru	1,264,714.47	-	1,264,714.47	28.85
Negotiable CDs	499,237.64	499,237.64	-	-
Commercial Paper	2,098,389.16	2,098,389.16	-	0.28
Foreign Corporate	2,558,665.61	-	2,558,665.61	4.76
U.S. Treasuries	36,132,532.47	3,771,145.12	32,361,387.35	4.12
Totals	93,655,993.00	11,268,906.46	82,387,086.79	2.59

*Excludes Exchange Traded Funds (ETF) which has a maturity more than 5 years

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 $8.1M and $1.5M for the years ended June 30, 2019 and 2018, respectively.

EXCESS INSURANCE ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

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

	2019	2018
Fair Value at June 30,	$ 231,568,828	$ 153,610,671
Add: Proceeds of Investments Disposed Of	141,912,548	72,682,799
Less: Cost of Investments Purchased	(211,732,605)	(155,635,700)
Less Fair Value at July 1	(153,610,671)	(69,138,145)
Change in Fair Value	$ 8,138,100	$ 1,519,625

Unrealized gains and losses by Asset type for June 30, 2019 are shown below:

	Beginning Fair Value At July 1, 2018	Purchases	Dispositions	Subtotal	Ending Fair Value At June 30, 2019	Change in Fair Value
U.S. Agencies	$ 13,209,637	$ 51,945,822	$ 43,299,973	$ 21,855,486	$ 21,545,267	$ (310,219)
Asset Based Securities	3,539,219	5,420,824	3,090,855	5,869,188	8,260,412	2,391,224
Corporate Notes	33,247,653	23,135,259	4,268,977	52,113,935	51,436,347	(677,588)
Mortgage Pass Through	-	6,242,269	1,234,804	5,007,465	7,169,416	2,161,951
Certificates of Deposit	499,238	1,552,444	750,000	1,301,682	550,632	(751,050)
Commercial Paper	3,363,104	9,582,126	8,365,613	4,579,617	3,067,937	(1,511,680)
Supranationals	1,105,945	4,703,178	3,244,803	2,564,320	2,647,899	83,579
U.S. Treasuries	36,132,531	100,265,747	71,239,136	65,159,142	67,936,925	2,777,783
Foreign Corporate Notes	2,558,666	978,045	-	3,536,711	5,741,235	2,204,524
International Equity	5,663,143	3,974,684	-	9,637,827	9,443,478	(194,349)
International Real Estate	1,164,165	70,002	-	1,234,167	1,258,906	24,739
Large Cap US Equity	20,233,278	-	6,418,387	13,814,891	15,368,560	1,553,669
Mid Cap US Equity	6,132,259	159,922	-	6,292,181	6,274,209	(17,972)
Real Estate	3,194,876	2,276,416	-	5,471,292	5,748,735	277,443
Emerging Market Equity	5,245,376	935,640	-	6,181,016	6,193,559	12,543
Small Cap US Equity	18,321,581	490,227	-	18,811,808	18,925,311	113,503
Totals	153,610,671	211,732,605	141,912,548	223,430,728	231,568,828	8,138,100

Unrealized gains and losses by Asset type for June 30, 2018 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	$ 15,741,418	$ 13,209,637	$ (2,531,781)
Asset Based Securities	1,696,419	4,018,259	2,361,798	3,352,880	3,539,219	186,339
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	3,944,381
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	36,132,531	(1,030,337)
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	18,157,434	20,233,278	2,075,844
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	4,541
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	16,020,767	18,321,581	2,300,814
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, 2019 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 factors 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, negotiable CDs, mortgage pass thru 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 a 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, 2019 and 2018.

Investment type	**Assets at Fair Value as of June 30, 2019**		
	Level 1	**Level 2**	**Level 3**
US Agencies	$ -	$ 21,545,267	$ -
Asset Backed Securities	-	8,260,412	-
Corporate Medium Term Notes	-	51,436,347	-
Foreign Corporate Notes	-	5,741,235	-
Supranationals	-	2,647,899	-
Commercial Paper	-	3,067,937	-
US Treasuries	-	67,936,925	-
International Equity	9,443,478	-	-
International Real Estate	1,258,906	-	-
Negotiable Certificates of Deposit	550,632	-	-
Large Cap US Equity	15,368,560	-	-
Mid Cap US Equity	6,274,209	-	-
Real Estate	5,748,735	-	-
Emerging Market Equity	6,193,559	-	-
Small Cap US Equity	18,925,311	-	-
Mortgage Pass Thru	7,169,416	-	
Total	$ 70,932,806	$ 160,636,022	$ -

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	-
Mortgage Pass Thru	1,264,714	-	-
Commercial Paper	-	2,098,389	-
Supranationals	-	1,105,945	-
U.S. Treasuries	-	36,132,532	-
International Equity	5,663,143	-	-
International Real Estate	1,164,165	-	-
Negotiable Certificate of Deposits	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	-	-
Total	$ 61,718,630	$ 91,892,041	$ -

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, 2019 of $247.3M have been presented at the net present value of $215M, using a 3.45% discount rate. For fiscal year June 30, 2018, total claim liabilities of $148.6M have been presented at the net present value of $132.8M, using a 3.75% 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, 2019 by each line of coverage:

	Claims Liabilities As of June 30, 2019	
Programs	**Undiscounted**	**Discounted**
Primary Workers Compensation Program	$ 16,894,163	$ 15,753,661
Excess Workers Compensation Program	127,981,298	110,284,184
General Liability 1 Program	52,446,657	41,947,690
General Liability 2 Program	47,500,286	44,729,544
Property Program	2,455,496	2,317,592
Total	**$ 247,277,900**	**$ 215,032,671**

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	$ 13,562,295
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	32,702,990
Property Program	2,598,157	2,437,395
Total	**$ 148,574,154**	**$ 132,847,720**

The following represents changes in those aggregate liabilities on a discounted basis for the Captive for the years ended June 30, 2019 and 2018:

	June 30, 2019	June 30, 2018
Unpaid claims and claim adjustment expenses at the beginning of the fiscal year	$ 132,847,720	$ 60,641,734
Incurred claims and claim adjustment expenses:		
Provision for claims		
Current fiscal year	97,879,956	95,639,941
Increase (Decrease) in the provision for Prior fiscal years	43,992,785	894,779
Total incurred claims and claim adjustment expenses	141,872,741	96,534,720
Payments attributable to insured events of the		
Current fiscal year	15,791,865	14,402,517
Prior fiscal years:	43,895,925	9,926,217
Total Payments	59,687,790	24,328,734
Total unpaid claims and claim adjustment expenses at the end of the fiscal year (A+B-C)	$ 215,032,671	$ 132,847,720
Current Claim Liabilities	$ 62,000,000	$ 42,500,000
Noncurrent Claim Liabilities	153,032,671	90,347,720
Total Claim Liabilities	$ 215,032,671	$ 132,847,720

(6) Net Position

Net Position represents the capital stock of $5M, and unrestricted net position of $19.2M as of June 30, 2019, for a total of $24.2M. At June 30, 2018, Net Position represented the capital stock of $5M, and unrestricted Net Position of $8.7M for a total of $13.7M. 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 $139.7M and $97M for the program years 2018/19 and 2017/18, respectively.

Various payments were made by the Authority on behalf of the Captive. Claims and services overhead allocation expense was $59.8M for the year ended June 30, 2019, of which $34.1M is unpaid as of June 30, 2019. For the year ended June 30, 2018, the claims and services overhead allocation expense was $24.1M, out of which $5.8M was unpaid at June 30, 2018. Unpaid amounts as of June 30, 2019 and 2018 are reported as Accounts Payable in the statement of Net Position.

The EIO received $10.3M from the EIA for revenues in the property program for the period March 31, 2019 to March 31, 2020. $7.7M was reflected as deferred revenue in the financial statements as of June 30, 2019.

The EIO paid the EIA a prefunded deposit in the property program to front monies for payment of claims. As of June 30, 2019 and 2018, 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 $100k for the year ended June 30, 2019 and $75k for the year ended June 30, 2018.

REQUIRED SUPPLEMENTAL INFORMATION

EXCESS INSURANCE ORGANIZATION, INC.
RECONCILIATION OF UNPAID CLAIMS LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019 AND 2018

		Primary Workers' Compensation	Excess Workers' Compensation	General Liability 1	General Liability 2	Property	Total June 30, 2019	Total June 30, 2018
A.	Unpaid Claims and Claim Adjustment Expenses at the Beginning of the Fiscal Year	$ 13,562,295	$ 76,658,052	$ 7,486,988	$ 32,702,990	$ 2,437,395	$ 132,847,720	$ 60,641,734
	Incurred Claims and Claim Adjustment Expenses:							
	Provision for Claims							
	Current Fiscal Year	13,732,530	47,544,736	3,431,590	22,748,242	10,422,858	97,879,956	95,639,941
	Prior Fiscal Years	611,727	3,184,472	38,893,798	1,302,788	-	43,992,785	894,779
B.	Total Incurred	14,344,257	50,729,208	42,325,388	24,051,030	10,422,858	141,872,741	96,534,720
	Payments:							
	Attributable to insured events of the							
	Current Fiscal Year	1,889,191	5,873,048	85,123	-	7,944,503	15,791,865	14,402,517
	Prior Fiscal Years	10,263,700	11,230,028	7,779,563	12,024,476	2,598,158	43,895,925	9,926,217
C.	Total Payments	12,152,891	17,103,076	7,864,686	12,024,476	10,542,661	59,687,790	24,328,734
D.	Total Unpaid Claims and Claim Claim Adjustment Expenses at end of the Fiscal Year (A+B-C)	$ 15,753,661	$ 110,284,184	$ 41,947,690	$ 44,729,544	$ 2,317,592	$ 215,032,671	$ 132,847,720
	Claims Reported	$ 11,813,592	$ 63,723,988	$ 298,443	$ 24,304,935	$ 2,658,532	$ 102,799,490	$ 71,103,247
	Claims Incurred But Not Reported	3,940,069	46,560,196	41,649,247	20,424,609	(340,940)	112,233,181	61,744,473
	Unallocated Loss Adjustment Expenses	-	-	-	-	-	-	-
	Total Claim Liabilities	$ 15,753,661	$ 110,284,184	$ 41,947,690	$ 44,729,544	$ 2,317,592	$ 215,032,671	$ 132,847,720
	Current Claim Liabilities	$ 11,567,951	$ 25,624,588	$ 2,098,563	$ 20,391,306	$ 2,317,592	$ 62,000,000	$ 42,500,000
	Noncurrent Claim Liabilities	4,185,710	84,659,596	39,849,127	24,338,238	-	153,032,671	90,347,720
	Total Claim Liabilities	$ 15,753,661	$ 110,284,184	$ 41,947,690	$ 44,729,544	$ 2,317,592	$ 215,032,671	$ 132,847,720

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

		Primary Workers' Compensation	Excess Workers' Compensation	Primary General Liability	General Liability 1	General Liability 2	Property	Total June 30, 2018
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
	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
	Payments:							
	Attributable to insured events of the							
	Current Fiscal Year	2,355,382	4,113,019	132,274	-	-	7,801,842	14,402,517
	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
D.	Total Unpaid Claims and Claim Claim Adjustment Expenses at 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
	Claims Reported	$ 13,562,295	$ 28,263,766	$ 121,429	$ 7,132,500	$ 20,498,291	$ 1,524,966	$ 71,103,247
	Claims Incurred But Not Reported	-	48,394,285	233,059	-	12,204,699	912,429	61,744,473
	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
	Current Claim Liabilities	$ 10,819,984	$ 12,800,946	$ 354,488	$ 4,815,029	$ 11,272,158	$ 2,437,395	$ 42,500,000
	Noncurrent Claim Liabilities	2,742,311	63,857,105	-	2,317,471	21,430,832	-	90,347,720
	Total Claim Liabilities	$ 13,562,295	$ 76,658,051	$ 354,488	$ 7,132,500	$ 32,702,990	$ 2,437,395	$ 132,847,720

EXCESS INSURANCE ORGANIZATION, INC.
REQUIRED SUPPLEMENTAL INFORMATION
NOTES TO EARNED PREMIUMS AND CLAIMS DEVELOPMENT INFORMATION
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2019

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
SCHEDULE OF EARNED PREMIUM AND CLAIMS DEVELOPMENT
FOR THE TEN YEAR PERIOD ENDED JUNE 30, 2019

	POLICY YEAR	June 30, 2017	June 30, 2018	June 30, 2019
	Earned Premiums	$ 78,109,714	$ 97,072,905	$ 139,666,969
	Less Ceded	-	-	
	Supplemental Assessments	-	-	
	Dividends Declared	-	-	
	Investment Earnings	7,344,886	6,487,264	5,969,807
1.	Total Revenues Available For Payment of Claims	85,454,600	103,560,169	145,636,776
2.	Unallocated Loss Adjustment Expense	-	-	
3.	Estimated Incurred Claims	75,803,096	93,571,460	136,235,191
	Less Ceded Claims	-	-	-
	Net Incurred Claims and Expenses, End of Policy Year	75,803,096	93,571,460	136,235,191
4.	Cumulative Paid Claims as of:			
	End of the Policy Year	15,161,362	14,402,517	15,791,866
	One Year Later	25,087,580	34,315,031	-
	Two Years Later	49,070,991	-	-
	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	136,235,191
	One Year Later	78,766,357	96,621,991	
	Two Years Later	81,353,377	-	
	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	$ 5,550,281	$ 3,050,531	$ -