California Casualty Management Co.

ANNUAL REPORT TO SHAREHOLDERS

2019

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"People who commit to make a difference for our communities deserve financial protection with the highest levels of care, service, compassion and understanding…

Which is Why We Exist."

In August 2019, after a thorough exploration of a sale of California Casualty Management Company (CCMC), the CCMC Board, in conjunction with representatives of the California Casualty Indemnity Exchange (CCIE) Advisory Board, decided to terminate the sale exploration process that started with a CCMC Board vote in January 2019. After receiving initial bids and moving to a second round, we did not receive a proposal that was in the best interests of California Casualty Group's (CCG) policyholders and CCMC's shareholders, employees and affinity group partners.

CCG has achieved premium growth for eight consecutive years and policy growth in ten of the past twelve years. However, CCG has been unprofitable with declining surplus during the period 2014 to 2019, with general operating unprofitability compounded by three of the four most destructive wildfire years in California history in 2015, 2017 and 2018.

The sale exploration was to determine whether a partner might bring insights, experience, resources and scale to help CCG grow faster and profitably. As the process began, the CCMC Board discussed remaining independent as a viable option, while acknowledging the significant challenges inherent in remaining independent. California Casualty provides an excellent experience for policyholders. In November 2019, Consumer Reports rated CCG in a tie for fifth place in its auto insurance survey ranking fifty-three companies. Still, writing auto and home insurance with a near-national footprint spreads a company of our size very thin.

While we have taken action to improve CCG's profitability, we are not where we need to be and we face challenges. CCMC's management team and the CCMC Board, working in conjunction with the CCIE Advisory Board, are committed to addressing these challenges.

ADDRESSING CHALLENGES: 2020 AND BEYOND

CCMC's Board took a step to tackle the challenges ahead when it elected Joe Volponi as CEO on September 11, 2019. As CCMC's President from 2013 to 2015, Joe demonstrated both exceptional leadership and expert insurance industry knowledge. As President and COO starting in 2016, Joe united departments both within and outside of his control to work together to significantly boost customer retention and grow policies and customers, as well as to implement extensive auto and home underwriting process improvements. As President and CEO since September, Joe has worked with CCMC's management team on a strategy revision to accelerate CCG's return to profitability.

Challenge: CCG Profitability

CCMC's top priority is to manage CCG to operating profitability and surplus growth. Despite typical catastrophe losses in 2019, CCG profitability was not at target. In January 2020, CCMC's management team cut $4 million in expenses, including laying off 19 employees, closing open positions, and lowering the CCMC Savings Investment Plan's service-based contribution percentages. Additional actions include a broad array of auto and home underwriting changes, as well as rate increases.

Challenge: Guidewire Deployment

In 2020 and beyond, CCMC must successfully deploy Guidewire in states as scheduled and within budget. Our Guidewire policy system project has experienced delays and cost overruns, which have resulted in a timing delay between CCMC's payment of cash to vendor partners and its ultimate recovery of that cash from CCG. This timing delay has reduced CCMC's historically strong liquidity position.

As of January 2020, CCMC's Guidewire capitalized costs are $36 million, a number that will grow as we deploy additional states. CCMC began partial depreciation of the Guidewire project in September 2019, passing monthly depreciation to CCG as a reimbursable expense. CCMC expects Guidewire net cash outlays to shift to net cash inflows by 2022, with cash inflows continuing until CCMC has been reimbursed for the project.

We successfully deployed our first state, Indiana, for policies effective October 1, 2019. The next set of states included Idaho and Kansas for policies effective April 1, 2020, and Colorado for policies effective April 15, 2020. Our big target is to deploy California for policies effective August 1, 2020, after which we will have 57% of customers on the Guidewire system. By the end of 2021 we plan to have over 80% of customers on the system.

Successfully installing Guidewire prepares CCG to compete in an increasingly digital insurance marketplace. We have a long way to go and the path involves risk, and at the

same time we have learned key lessons that reduce risk as we continue to deploy states. Thank you to all CCMC employees and contractor-partners who have fought so hard to go live in our initial Guidewire states.

Challenge: California Property Exposure

To secure more protection for CCG against future catastrophes that could severely reduce CCG's surplus, CCMC's Reinsurance Committee, chaired by CFO Mike Ray, has for the second year in a row opted for an additional first layer of reinsurance protection starting at a $10 million retention and providing $8 million of coverage that CCG did not have in 2018 and prior. In addition, in 2020 CCG has an additional $5 million of limit in its upper layer of reinsurance. In total, CCG has $68 million of coverage for 2020 above its $10 million retention. In addition to purchasing additional reinsurance, CCMC is carefully monitoring the accumulation of exposures in wildfire risk areas.

Challenge: Pension Liability

CCMC's liabilities for its frozen qualified and non-qualified pension plans remain volatile. The plans were frozen to new entrants as of January 1, 2004, and frozen to all new accumulations as of January 1, 2016. Still, when interest rates drop sharply, CCMC's discounted future pension liabilities increase dramatically. The 10-Year Treasury was 6.66% on January 1, 2000 and has dropped to 1.76% as of January 1, 2020. It is notable that despite falling interest rates in 2019, CCMC's qualified defined benefit pension plan ("Pension Plan") funding was 88.5% at December 31, 2018 and 88.5% at December 31, 2019, with a 17.4% return on assets offsetting a $36 million increase in CCMC's Pension Plan liability. CCMC's non-qualified Supplemental Executive Retirement Plan and Excess Plan ("SERP and Excess Plans") are unfunded (see Note 11).

CCMC's Pension Plan is a significant burden, negatively impacting CCMC's cash position in the short-term, with recovery made as pension expense is recognized according with Generally Accepted Accounting Principles (GAAP) and reimbursed by CCG. CCMC's Pension Plan has generated pension income rather than pension expense in the years 2016 to 2019, creating an imbalance between CCMC cash outlays and recovery of cash from CCG. CCMC pension income benefitted CCG's combined ratio in 2016 to 2019. When the Pension Plan generates pension expense, it can have a significant negative impact on CCG profitability.

Extremely low interest rates have generated actuarial losses for CCMC's Pension Plan, creating a large negative impact on CCMC's GAAP book value per share that CCMC adjusts out to calculate adjusted book value per share (see Note 9). Actuarial losses for CCMC's SERP and Excess Plans impact both CCMC's GAAP book value per share and adjusted book value per share, and resulted in a $5.35/share decrease to both in 2019 (see Note 11, footnote (2)).

CCMC closely manages its pension obligations in consultation with trusted pension experts, including our investment manager and solution provider SEI, our pension actuaries, our auditors and our ERISA attorneys.

CCMC and CCG face significant challenges. The top priority is rapidly returning CCG to profitability and growing surplus. I am optimistic that the CCMC team, in cooperation with the CCIE Advisory Board, can achieve our plan to turn around profitability.

CCMC FINANCIAL PERFORMANCE

CCMC net income in 2019 was $4.5 million, compared to $11.2 million in 2018. 2019 pre-tax income was $5.8 million, compared to $14.4 million in 2018. CCMC investment income was $3.8 million in 2019, compared to $13.0 million in 2018. CCMC's 2019 investment income was $2.8 million better than plan due to realized gains from the sale of investment securities. 2018 investment income was unusually high due to $9.9 million in realized gains ($7.8 million net gain after tax) from the sale-leaseback of the Colorado Service Center (CSC), as well as $2.5 million in realized gains from the sale of investment securities.

CCMC's 2019 revenue was $126.0 million, compared to $121.9 million in 2018. CCMC did not earn an incentive fee in 2019 because CCG produced a pre-tax loss.

CCMC's 2019 return on adjusted beginning shareholders' equity of $49.3 million was 9.1 percent. Last year, with the CSC sale, CCMC's 2018 return on adjusted beginning shareholders' equity of $43.0 million was 26.0 percent. CCMC's 9.1 percent return on equity in 2019 is comparable to CCMC's 10-year historical average of 8.3 percent and lower than CCMC's 20-year historical average of 11.5 percent. Absent the $2.8 million in realized gains from the

sale of investment securities in 2019, CCMC's return on equity would have been lower than historical averages due to CCMC's decision in 2019 to reduce its return on operating capital for a seventh straight year to support a lower CCG expense ratio. This reduction benefitted CCG's combined ratio by approximately 0.8 - 0.9 percentage points in 2013, 2014, 2015, 2016, 2017, 2018 and 2019.

Total shareholder return of negative 4.6% on an adjusted basis in 2019 was lower than the 9.1 percent return on equity due to other comprehensive losses of $6.8 million. This includes a $1.3 million decrease in net unrealized gains on investment securities and a $5.5 million unfavorable pension-related adjustment. Total return of negative 4.6% is lower than CCMC's 10-year and 20-year historical averages of 7.6 percent and 10.4 percent, respectively. At December 31, 2019, the adjusted book value of CCMC common stock was $41.23, down $5.35 from $46.58 at December 31, 2018.

CCMC paid $3.2 million in dividends in 2019. Dividend payments were $3.00 per share. At its meeting on December 2, 2019, the CCMC Board elected to forego the declaration of a 2019 fourth quarter dividend. Pension income and a lower CCMC markup negatively impacted available cash. In addition, CCMC's investment in Guidewire, intended to position the company competitively in the future, also reduced cash and investment securities. Over the life of the Guidewire system cash will be recovered from CCG; however, at its December meeting the Board chose to preserve cash and investment securities.

On a GAAP basis, CCMC had shareholders' equity of negative $19.2 million and a book value per share of negative $18.90 at December 31, 2019, compared to shareholders' equity at December 31, 2018 of negative $5.3 million and a book value per share of negative $5.02. Notes 9 and 11 of CCMC's financial statements explain how cumulative charges, resulting from recognition of the funded status of employee benefit plans in the balance sheet as required by pension accounting standards implemented at December 31, 2007, are removed to generate CCMC's adjusted book value of $41.23.

CCMC had $12.8 million in cash and investment securities at December 31, 2019, down from $30.3 million at December 31, 2018. CCMC's investment in Guidewire, pension income, reduced CCMC markup and dividend payments of $3.2 million decreased cash and investment securities.

CCMC did not make a contribution to the Pension Plan in 2019, 2018, 2017 or 2016. In 2013, 2014 and 2015, CCMC made contributions totaling $39.0 million to the Pension Plan. The Pension Plan was 88.5 percent funded at December 31, 2019, with $209.5 million in assets compared to $236.7 million in liabilities. Since this plan is now frozen, all employees are participating in CCMC's service-based contribution plan going forward.

CCG OPERATING AND FINANCIAL PERFORMANCE

While CCG experienced a relatively normal catastrophe year in 2019, higher than planned losses and prior year adverse loss development contributed to poor profitability and a decline in CCG's surplus. CCG's 2019 personal lines combined ratio was 110.4 percent, compared to 114.4 percent in 2018, with 2018 results impacted heavily by the most devastating fire in California history, the Camp Fire in Paradise, CA.

CCG's personal lines incurred loss ratio improved from 73.0 percent in 2018 to 71.4 percent in 2019. The 2019 result of 71.4 percent was unfavorable to a planned result of 65.1% by 6.3 percentage points. With loss adjustment expenses 2.0 percentage points favorable to plan, the combined loss and loss adjustment expense ratio was unfavorable to plan by 4.3 percentage points. Non-case loss reserve increases to address adverse loss development on prior years accounted for 1.3 percentage points of this 4.3 percentage point unfavorable result. Two large extra-contractual claims accounted for approximately half of the unexpected adverse loss development on prior years.

CCG's 2019 auto incurred loss ratio was 71.1 percent, compared to 66.9 percent in 2018. CCG's 2019 auto net earned premium was $294.9 million, compared to $283.7 million in 2018, an increase of 3.9 percent.

CCG's 2019 home incurred loss ratio was 72.5 percent, compared to 94.2 percent in 2018. CCG's 2019 home net earned premium was $86.7 million, compared to $82.9 million in 2018, an increase of 4.6 percent.

CCG's direct written premium grew from $378.9 million in 2018 to $393.7 million in 2019, an increase of 3.9%. Our

2019 total customer retention was 92.5 percent, one-tenth of a point below plan and two-tenths lower than a record high of 92.7 percent in 2018. Retention drove growth of 301 customers to 165,825 at December 31, 2019, compared to 165,524 customers-in-force at December 31, 2018. Customers-in-force grew for a third consecutive year, although we ended 901 customers short of our target of 166,726, due to new customer production that was 93.7% of plan. Customer Service satisfaction at 99.8 percent and Claims satisfaction at 96.6 percent remained strong and were similar to results of 99.8 percent and 96.4 percent, respectively, for 2018.

CCG produced a net loss of $29.3 million in 2019 compared to a net loss of $37.1 million in 2018. CCG surplus decreased by $24.4 million, dropping from $191.6 million at December 31, 2018, to $167.2 million at December 31, 2019.

Unrealized gains and losses on bonds are not reported for statutory purposes as a component of an insurer's surplus. With declining interest rates in 2019, it should be noted that CCG's bond portfolio at December 31, 2019 had an unrealized gain of $10.2 million compared to an unrealized loss of $5.0 million at December 31, 2018.

CCG's surplus may benefit in 2020 from CCG's rights to a portion of potential PG&E and Southern California Edison settlements relating to 2018 and 2017 California fires. CCMC's best estimate of the sum of potential recoveries, net of what is due to CCG's reinsurers, is $10.6 million. Political and legal uncertainties pose a risk to CCG's ability to recognize these potential recoveries.

If CCIE exercised its right to put 186,000 shares back to CCMC, CCG's surplus would increase by approximately $29.8 million based on 2019 year-end values. If CCIE should exercise that put option, CCMC would be required to purchase the shares at an 85% premium to adjusted book value. That would produce a corresponding decline in adjusted book value for all other shareholders of approximately 20.0 percent. Note 3 of CCMC's financial statements, "Related Party Transactions", describes the details of CCIE's investment in CCMC.

CCG's 2019 total expense ratio, as a percentage of net earned premium, improved to 39.5 percent, compared to 42.1 percent for 2018. A portion of this improvement is due to higher ceded loss adjustment expense for 2019 as a result of prior year catastrophes. CCG's personal lines underwriting expense ratio, as a percent of net written premium, was unchanged from 2018 to 2019 at 26.2 percent. CCG's 2019 operating cash flow ratio was 93.3 percent while its underwriting cash flow ratio was 90.2 percent, compared to 91.3 percent and 87.9 percent, respectively, in 2018.

In May 2019, A.M. Best Company rated CCIE and its three personal lines subsidiaries at B++ (Good) with a "negative outlook".

FORWARD

CCMC's employees only know one direction: forward.

When a new strain of ransomware attacked our systems on June 5, 2019, our IT team diagnosed the problem and commenced a restoration process that they had practiced many times. Team members worked day and night for three days to bring our systems back up. No recovery drill can anticipate the reality of such an attack, and we were fortunate that many members of our IT team had decades of experience to draw upon. Identifying vendors in advance to help in this sort of crisis proved invaluable, and we were fortunate to have recently replaced a key backup system with state-of-the-art new equipment.

In my career, I have never seen a work marathon like this system restoration effort. It was extraordinary, and it epitomizes the ability of our employees to meet and conquer challenges. Thank you to all CCMC employees for the unique and personal contributions they make in support of CCG's policyholders each and every day.

Carl B. (Beau) Brown, CPCU
Chairman of the Board

As this report goes to print, our dedicated employees continue to support our customers, many of whom are law enforcement professionals, firefighters, educators and nurses on the front lines of the COVID-19 pandemic. Thank you to our employees and our customers for working tirelessly to keep our country running.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
California Casualty Management Company

Report on the Financial Statements

We have audited the accompanying financial statements of California Casualty Management Company, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income (loss) and comprehensive income (loss), changes in shareholders' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Casualty Management Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Simsbury, Connecticut
April 9, 2020

BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(DOLLARS IN THOUSANDS)

	2019	2018
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,508	$ 6,207
Investment securities	9,270	24,088
Receivables	2,817	2,815
Income taxes recoverable	119	14
Prepaid expenses and other	5,398	5,108
Total current assets	21,112	38,232
Property and equipment, net	50,944	40,080
Leased assets	28,242	32,570
Deferred income taxes, net	15,003	12,854
Other noncurrent assets	1,248	1,080
Total assets	$ 116,549	$ 124,816
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,531	$ 3,679
Accrued employee compensation	14,917	15,976
Accrued benefit liability	3,524	3,318
Taxes payable	452	537
Operating lease obligations	3,613	4,107
Finance lease obligations and other	1,200	1,113
Total current liabilities	28,237	28,730
Operating lease obligations	28,567	32,199
Finance lease obligations	705	1,099
Noncurrent notes payable	1,046	-
Accrued benefit liability	75,691	66,375
Noncurrent employee compensation	1,217	1,446
Other noncurrent liabilities	328	277
Total liabilities	135,791	130,126
Shareholders' equity (deficit)		
Common stock - no par value	14,252	16,016
Common stock with put right (Note 3)	14,188	16,030
Accumulated other comprehensive loss	(77,404)	(64,035)
Retained earnings	29,722	26,679
Total shareholders’ equity (deficit)	(19,242)	(5,310)
Total liabilities and shareholders’ equity (deficit)	$ 116,549	$ 124,816

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

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

YEARS ENDED DECEMBER 31, 2019 AND 2018

(DOLLARS IN THOUSANDS)

	2019	2018
	(In thousands)	
Revenue:		
Management fee	$ 124,490	$ 120,391
Other	1,550	1,474
Total revenue	126,040	121,865
Operating expenses		
Personnel	79,834	80,159
Acquisition and professional services	21,781	19,967
Facility and equipment	15,879	14,508
Communications	6,480	6,677
Other	2,501	1,981
Total operating expenses	126,475	123,292
Operating income (loss)	(435)	(1,427)
Investment income (includes reclassification of $2,663 and $1,962, net of tax of $708 and $522, for 2019 and 2018, respectively from other comprehensive loss for net gain on investments)	3,790	13,018
Interest expense	(95)	(118)
Pension income	2,559	2,966
Income before provision for income taxes	5,819	14,439
Provision for income taxes	1,311	3,270
Net income	4,508	11,169
Other comprehensive income (loss), net of tax		
Unrealized net gain (loss) on investments (net of tax of $362 and ($319) for 2019 and 2018, respectively)	1,360	(1,202)
Less: Reclassification adjustment for net gain included in net income (net of tax of $708 and $522 for 2019 and 2018, respectively)	(2,663)	(1,962)
Change in employee retirement benefit plans (net of tax of $3,208 and $252 for 2019 and 2018, respectively) (Note 11)	(12,066)	(948)
Other comprehensive loss	(13,369)	(4,112)
Comprehensive income (loss)	$ (8,861)	$ 7,057

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

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2019 AND 2018

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

ALIFORNIA CASUALTY MANAGEMENT COMPANY

ATEMENTS O

Years Ended December 31, 2019 and 2018

	Common Stock	Common Stock with Put Right	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances at January 1, 2018	$ 15,001	$ 14,287	$ (59,923)	$ 21,542	$ (9,093)
Net income	-	-	-	11,169	11,169
Change in carrying value of common stock with put right (Note 3)	-	1,743	-	(1,743)	-
Common stock retired (3,782 shares)	(124)	-	-	(50)	(174)
Dividends paid to shareholders ($4.00 per share)	-	-	-	(4,239)	(4,239)
Stock issued in long-term executive incentive plan (18,772 shares)	780	-	-	-	780
Stock issued in executive stock plan (8,652 shares)	359	-	-	-	359
Change in unrealized net gain on investments, net of deferred tax of ($841)	-	-	(3,164)	-	(3,164)
Change in employee retirement benefit plans, net of deferred tax of ($252) (Note 11)	-	-	(948)	-	(948)
Balances at December 31, 2018	16,016	16,030	(64,035)	26,679	(5,310)
Net income	-	-	-	4,508	4,508
Change in carrying value of common stock with put right (Note 3)	-	(1,842)	-	1,842	-
Common stock retired (61,019 shares)	(2,740)	-	-	(92)	(2,832)
Dividends paid to shareholders ($3.00 per share)	-	-	-	(3,215)	(3,215)
Stock issued in long-term executive incentive plan (14,487 shares)	675	-	-	-	675
Stock issued in executive stock plan (6,455 shares)	301	-	-	-	301
Change in unrealized net gain on investments, net of deferred tax of ($346)	-	-	(1,303)	-	(1,303)
Change in employee retirement benefit plans, net of deferred tax of ($3,208) (Note 11)	-	-	(12,066)	-	(12,066)
Balances at December 31, 2019	$ 14,252	$ 14,188	$ (77,404)	$ 29,722	$ (19,242)

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

	2019	2018
	(In thousands)	
Cash flows from operating activities		
Net income	$ 4,508	$ 11,169
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization on property and equipment including leased assets	9,521	6,807
Amortization on bonds	28	46
Gain on sale of real estate	-	(10,037)
Net gain on sale and disposal of property and equipment	(66)	(62)
Net realized gain on investment securities	(3,371)	(2,484)
Provision for deferred income taxes	1,404	3,272
Changes in:		
Receivables and other assets	(668)	606
Payables, accrued expenses, and other liabilities	(8,150)	(2,986)
Net cash provided by operating activities	3,206	6,331
Cash flows from investing activities		
Proceeds from sale of property and equipment	102	22,565
Purchase of property and equipment	(15,989)	(24,055)
Proceeds from sale and maturities of investment securities	17,213	15,520
Purchase of investment securities	(700)	(15,794)
Net cash provided by (used in) investing activities	626	(1,764)
Cash flows from financing activities		
Payments on finance lease obligations	(372)	(1,869)
Payments on notes payable	(112)	-
Common stock retired	(2,832)	(174)
Dividends paid to shareholders	(3,215)	(4,239)
Net cash used in financing activities	(6,531)	(6,282)
Net change in cash and cash equivalents	(2,699)	(1,715)
Cash and cash equivalents at the beginning of the year	6,207	7,922
Cash and cash equivalents at the end of the year	$ 3,508	$ 6,207
Supplemental disclosure of cash flow information		
Cash paid during the year for income taxes	$ 11	$ 4
Cash received during the year for lease commencement	$ -	$ (2,820)
Supplemental schedule of noncash investing and financing activities		
Lease obligations arising from right-of-use assets from leases	$ 3,996	$ 36,306
Property and equipment purchased but not yet paid for	$ 770	$ 1,147
Note payable issued in exchange for equipment purchase	$ 1,424	$ -
Common stock issued through employee stock plans	$ 976	$ 1,139

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

NOTE 1 - NATURE OF OPERATIONS

California Casualty Management Company ("CCMC") is the attorney-in-fact for the California Casualty Indemnity Exchange ("CCIE"), a reciprocal insurance exchange, and manager for CCIE's wholly owned subsidiaries. CCIE and its subsidiaries are collectively referred to as the California Casualty Group ("CCG").

CCMC operates in the insurance services segment. CCG is a personal lines insurance group headquartered in San Mateo, California, writing nonassessable full coverage automobile and homeowner insurance policies. Some directors and officers of CCMC are nonvoting members of the Boards and/or are officers of CCG.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates: GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Cash Equivalents: Cash equivalents are certain highly liquid investments with insignificant interest rate risk which have original maturities of three months or less. CCMC's cash equivalents are stated at cost which approximates fair value and generally consist of money market funds and high quality short-term fixed income securities.

Investment Securities: CCMC classifies its marketable investment securities as available-for-sale. Accordingly, investment securities are reported at fair value. Investment securities are classified as current assets in the balance sheets as they represent funds available for current operations. Unrealized gains and losses on securities are recorded, net of tax, as a separate component of shareholders' equity (deficit) under accumulated other comprehensive income ("AOCI"). Gains and losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income ("OCI") as unrealized holding gains and losses in the period in which they arose are deducted through OCI in the current period as reclassification adjustments. Realized gains and losses on sales of investments are recognized on a first-in, first-out basis.

The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in investment income.

CCMC reviews its investment portfolio for reductions in fair value below cost that, in the opinion of CCMC, represent an other-than-temporary impairment ("OTTI"). Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term and the potential impact of credit–related losses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For bonds, the amount of an OTTI related to a credit loss is recognized in investment income as a realized loss. Similarly, an impairment on a bond which CCMC has the intent, at the balance sheet date, to sell or will more likely than not be required to sell before recovery of cost, is also recognized in investment income as a realized loss. This OTTI is also reflected as a reduction in the cost basis of the bond. The amount of an unrealized loss on bonds related to other factors is recorded, net of tax, as a component of shareholders' equity (deficit) in AOCI with no change to the cost basis of the security. For stocks, prior to the adoption of ASU 2016-01 as discussed later, an OTTI is recognized in investment income and reflected as a reduction of the cost basis of the security based on the extent and duration that fair value is below cost, in addition to issuer-specific events. CCMC sold its entire stock investment portfolio during 2019.

Fair Value Option: CCMC has adopted current authoritative accounting guidance which permits entities to elect to measure eligible items at fair value at specified dates. CCMC did not elect to apply the fair value option to any eligible financial assets or financial liabilities upon adoption, or during the years ended December 31, 2019 and 2018. CCMC may elect to account for selected financial assets and financial liabilities at fair value. Such an election could be made at the time an eligible financial asset, financial liability or firm commitment is recognized or when certain specified reconsideration events occur.

Disclosures About Fair Value of Financial Instruments: The fair value of investment securities is based upon quoted market prices, where available, or fair values quoted by an independent pricing service based on sales of similar securities. The carrying amounts of cash and short-term investments are reasonable estimates of fair value.

Property and Equipment: Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is recognized principally using a straight-line method over the estimated useful lives of the assets. Estimated lives range from three to ten years for equipment and automobiles and up to thirty nine years for property. Leasehold improvements are amortized over the useful life of the improvement or the applicable lease term, whichever is shorter. Cost of property and equipment retired or otherwise disposed of and the related accumulated depreciation and amortization are removed from the accounts, and the resulting gains or losses are included in the statements of income (loss) in the period disposed.

Computer software developed or obtained for internal use is capitalized. Upon project completion, these costs are amortized over the estimated useful life, ranging from three to ten years, of the software on a straight-line basis.

Revenue Recognition: Revenue from management fees are recognized as earned when the underlying services are performed and the performance obligations, which CCMC considers the to be the management of the insurance program, have been met. CCMC considers the management of the insurance program to be the sole performance obligation of its contract with CCG. As discussed further in Note 3 CCMC is compensated based on expenses incurred, plus in certain years a markup and an annual incentive fee can be earned by CCMC. The base management fee is recognized as earned when the underlying services are performed and the performance obligation has been met which correlates with CCMC's recognition of expenses. The markup and annual incentive fees are recognized as revenue in the period that they are earned and approved by the board of directors. All compensation earned related to the management fees is typically settled in the month subsequent to when it is recognized as revenue.

Other revenue is comprised of commissions earned on premiums for specialty types of insurance coverage provided to CCG's policyholders through CCMC's strategic underwriting partners. Commissions are earned when performance obligations are met which is typically on the effective date or billing date of the policy depending on the underlying program. Payment is typically due within 30 days of billing date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: CCMC accounts for income taxes using a balance sheet approach. Under this method, the provision for income taxes is based on pretax financial statement income and includes amounts that are deferred. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted rates.

Accounting for Unrecognized Tax Benefits: Current authoritative accounting guidance for unrecognized tax benefits requires a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. CCMC records a liability for the difference between the benefit recognized and measured pursuant to the guidance that is more likely than not to be sustained upon settlement and the tax position taken or expected to be taken on CCMC's tax return. A liability is established when CCMC believes that certain tax return positions may be challenged despite CCMC's belief that the positions are fully supportable. The liability may be adjusted in light of revised assessments of a tax return position, or in the case of changing facts and circumstances, such as the outcome of a tax audit. Adjustments to the liability are recorded in the period in which the determination is made. The provision for income taxes includes the impact of initial liability recognition and any subsequent adjustments to those liabilities that are considered appropriate. Accrued interest and penalties related to unrecognized tax benefits are also recognized in the provision for income tax.

Variable Interest Entities: Current authoritative accounting guidance for the consolidation of variable interest entities ("VIEs") requires a qualitative assessment of whether an entity has the power to direct the VIE's activities and, whether the entity has the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary of a VIE. CCMC has evaluated its relationship with CCG to determine whether or not consolidation is required under this guidance.

Management's assessment included consideration of CCG's surplus, which is more than adequate to finance its ongoing operations, as well as the governance and organizational structure of both CCMC and CCG. CCMC's Board of Directors and CCG's Advisory Board have no overlapping authorities or responsibilities. Management concluded that CCG's Advisory Board holds and exercises the power to direct the activities that most significantly impact the economic performance of CCG, therefore CCMC is not the primary beneficiary and consolidation is not required.

CCMC has no loss exposure as a result of its relationship with CCG (Note 1, Note 3).

Leases: CCMC accounts for its leases in accordance with FASB ASC 842 Leases (ASC 842)which was adopted by CCMC January 1, 2018. In accordance with ASC 842, lessees recognize all leases (other than short-term leases) on the balance sheets, by recording a right-of-use (ROU) asset and lease liability, equal to the present value of lease payments. The expense recognition and amortization of the leased assets vary depending on the classification of the lease as either an operating lease or a finance lease. For operating leases, the standard requires recognizing a single lease expense on a straight-line basis. For finance leases, interest expense and a straight-line amortization expense are required to be reflected separately in the income statement, with the total expense declining throughout the lease term.

At the inception of an arrangement, management determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating and finance leases are included in leased assets and lease obligations in the balance sheets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ROU assets represent the right to use an underlying asset for the lease term and lease obligations represent CCMC's obligation to make lease payments arising from the lease. Operating lease ROU assets and obligations are recognized at commencement date based on the present value of lease payments over the lease term. As CCMC's leases do not provide an implicit rate, CCMC has elected to use the practical expedient provided by ASC 842 and utilize a U.S. Treasury rate with a similar duration to the lease at commencement date in determining the present value of lease payments. CCMC uses the implicit rate when readily determinable.

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that CCMC will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

CCMC has elected not to recognize on the balance sheets leases with terms of one-year or less. Most leases with a term greater than one-year are recognized on the balance sheets as ROU assets, lease obligations and, if applicable, long-term lease obligations.

Although separation of lease and non-lease components is required, certain practical expedients are available to entities. CCMC has lease agreements with lease and non-lease components, which are generally accounted for separately. Operating expenses and property taxes due for leased facilities are accounted for as non-lease components.

Recently Adopted Accounting Standards: In March 2017, the FASB issued ASU 2017-07 *Compensation - Retirement Benefits* which impacts CCMC's accounting for defined benefit pension and postretirement benefit costs to improve the presentation of net periodic pension costs and net periodic postretirement benefit costs that requires entities to (1) disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. The ASU also requires disclosures of the income statement lines used to present the other components if these components are not presented separately in the income statement. CCMC has adopted this standard as of December 31, 2019, on a retrospective basis which resulted in the reclassification of $2,966 from personnel expense to pension income on the statement of income (loss).

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments* that amends presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. The ASU is effective for the year ending December 31, 2019. CCMC sold all equity securities in 2019 and recognized all gains and losses from sale in the income statement for the year ended December 31, 2019.

On January 1, 2019, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"). The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. It supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. CCMC's revenues primarily come from management fees earned from CCG and commissions earned on premiums for specialty types of insurance coverage placed with CCMC's strategic underwriting partners.

The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Standards Not Yet Adopted: In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses* that amends the accounting for credit losses on most financial instruments. For financial assets measured at amortized cost such as trade receivable and any other financial assets not excluded from the scope that have the contractual right to receive cash, guidance requires the use of expected credit loss model to estimate losses expected throughout the life of the financial asset and record an allowance that, when deducted from amortized cost basis, presents the net amount expected to be collected on the financial asset. The guidance also modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods. This ASU is effective for the year ending December 31, 2022. Early adoption is permitted. CCMC is currently assessing the impact of adopting this new standard.

NOTE 3 - RELATED PARTY TRANSACTIONS

Management Fee and Reimbursements: CCMC is the attorney-in-fact for CCIE and manager for CCIE's wholly owned subsidiaries under various management agreements. CCMC is paid a fee consisting of expenses incurred on behalf of CCG plus a markup not to exceed 25% of expenses. In establishing the markup, CCMC's management considers several factors, including CCG's financial strength, operating results and the competitiveness of CCG's insurance products. CCG's 2019 premium and surplus are approximately $381,600 and $167,200, respectively. An annual incentive fee of up to 10% of CCG's calendar year pre-tax income, calculated after giving effect to such incentive fee, may also be paid to CCMC. No incentive fee was earned by CCMC in 2019 and 2018. CCMC reimburses CCG for the annual savings in state income taxes that are attributable to managing CCG's operations, or charges CCG for any adjustments to true-up prior years.

The management fee earned and state income tax adjustments for the years ended December 31 are as follows:

	2019	2018
Expenses incurred	$ 123,644	$ 120,391
Markup taken	846	-
Incentive fee	-	-
State income tax adjustments	-	-
Net management fee	$ 124,490	$ 120,391
Maximum markup allowed (25% of expenses incurred)	$ 30,911	$ 30,098
Markup taken	(846)	-
Markup allowed but not taken	$ 30,065	$ 30,098

NOTE 3 - RELATED PARTY TRANSACTIONS (Continued)

Other Transactions: In accordance with the management agreements, generally all expenses incurred by CCMC that relate to the management of CCG shall be paid by CCMC and reimbursed through the management fee. Exceptions include the following, which shall be paid by CCG or if paid by CCMC, reimbursed separately from the management fee: losses, allocated claims expense, governmental charges, premium taxes, federal and all other taxes of CCG, reinsurance, CCG Directors' expenses and specific expenses authorized by the Advisory Board of CCIE. CCMC billed CCG $491 and $596 for expenses incurred under this provision in 2019 and 2018, respectively. These transactions are shown as a reduction of CCMC expense, rather than revenue.

At December 31, 2019 and 2018, CCMC had a receivable due from CCG of $2,601 and $2,614, respectively, included in receivables on the balance sheets. Related party balances are settled monthly.

CCIE Investment in CCMC: In 2004, CCIE purchased 186,000 shares of CCMC common stock from existing shareholders (158,722 Series A and 27,278 Series B) at a price of $99.09 per share. CCIE's interest in CCMC is 18.3% and 17.6% at December 31, 2019 and 2018, respectively. In accordance with the acquisition agreement, CCIE has the right to put the shares back to CCMC at a purchase price equal to the CCMC adjusted book value per share (Note 9) at the time the put right is exercised, multiplied by the same book value multiple used in the original purchase, 1.85. If CCIE were to exercise its put right on the 186,000 shares, at its ownership level as of December 31, 2019 and 2018, the resulting adjusted book value to the remaining shareholders will be reduced by approximately 19.0% and 18.1%, respectively. At December 31, 2019 and 2018, the carrying value of the common stock with put rights was $14,188 and $16,030, respectively, and is reported as a separate component of shareholders' equity (deficit). There is a corresponding reduction to retained earnings and, therefore, no net impact to total shareholders' equity (deficit). CCMC paid dividends to CCIE of $558 and $744 in 2019 and 2018.

NOTE 4 - INVESTMENT SECURITIES

Current authoritative accounting guidance applies to all assets and liabilities measured at fair value on a recurring or nonrecurring basis, and establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value.

The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

CCMC has categorized its financial instruments into a fair value hierarchy of three levels, as follows:

Level 1 When available, CCMC uses unadjusted, quoted prices in active markets for identical instruments at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 includes active exchange-traded equity and certain U.S. Treasury securities.

NOTE 4 - INVESTMENT SECURITIES (Continued)

Level 2 When quoted market prices in active markets are not available, CCMC uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices that are derived principally from or corroborated by observable market data by correlation or other means. These quotes come from independent pricing vendors and may be based on recently reported trading activity and other relevant information including benchmark yields, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. Level 2 includes certain corporate, municipal and asset backed bonds.

Level 3 Valuations are derived principally from inputs that are unobservable in the market. These unobservable inputs reflect CCMC's own subjective estimates of assumptions that market participants would use in pricing the instrument.

Certain assets held by the Defined Benefit Pension Plan (Note 11) are measured at Net Asset Value.

The following table presents available-for-sale investments measured at fair value on a recurring basis classified by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Bonds				
U.S. government	$ 1,253	$ -	$ -	$ 1,253
Municipal agencies	-	1,725	-	1,725
Asset backed	-	1,395	-	1,395
Industrial and miscellaneous	-	4,897	-	4,897
Total	$ 1,253	$ 8,017	$ -	$ 9,270

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Bonds				
U.S. government	$ 2,187	$ 755	$ -	$ 2,942
Municipal agencies	-	2,852	-	2,852
Asset backed	-	2,466	-	2,466
Industrial and miscellaneous	-	6,416	-	6,416
Total bonds	2,187	12,489	-	14,676
Stocks				
Large cap	6,542	-	-	6,542
Mid cap	2,003	-	-	2,003
Small cap	867	-	-	867
Total stocks	9,412	-	-	9,412
Total	$ 11,599	$ 12,489	$ -	$ 24,088

CCMC currently has no material financial liabilities that would require classification.

NOTE 4 - INVESTMENT SECURITIES (Continued)

The cost and fair values of investment securities are as follows:

	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2019				
Bonds				
U.S. government	$ 1,242	$ 24	$ (13)	$ 1,253
Municipal agencies	1,669	56	-	1,725
Asset backed	1,362	33	-	1,395
Industrial and miscellaneous	4,717	180	-	4,897
Total	$ 8,990	$ 293	$ (13)	$ 9,270

	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2018				
Bonds				
U.S. government	$ 2,936	$ 11	$ (6)	$ 2,941
Municipal agencies	2,821	57	(27)	2,851
Asset backed	2,506	4	(44)	2,466
Industrial and miscellaneous	6,406	24	(12)	6,418
Total bonds	14,669	96	(89)	14,676
Stocks				
Large cap	5,092	1,993	(543)	6,542
Mid cap	1,600	590	(187)	2,003
Small cap	798	188	(119)	867
Total stocks	7,490	2,771	(849)	9,412
Total	$ 22,159	$ 2,867	$ (938)	$ 24,088

The amortized cost and fair value of bonds at contractual maturities at December 31, 2019 are as follows:

	Amortized Cost	Fair Value
Less than one year	$ 1,198	$ 1,209
One to five years	4,444	4,604
Five to ten years	2,060	2,139
Over ten years	1,288	1,318
Total bonds	$ 8,990	$ 9,270

NOTE 4 - INVESTMENT SECURITIES (Continued)

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Proceeds from sales of stocks during 2019 and 2018 were $11,010 and $4,845, respectively. Proceeds from sales and maturities of bonds during 2019 and 2018 were $6,203 and $10,675, respectively. Gross realized gains and losses pertaining to investment securities sold and realized losses recognized for declines in the fair value of stocks which were determined to be OTTI were as follows:

	Gains	Losses	OTTI	Net
December 31, 2019				
Bonds				
U.S. government	$ 5	$ -	$ -	$ 5
Municipal agencies	8	(11)	-	(3)
Asset backed	3	(7)	-	(4)
Industrial and miscellaneous	7	(3)	-	4
Total bonds	23	(21)	-	2
Stocks				
Large cap	2,909	(360)	-	2,549
Mid cap	824	(159)	-	665
Small cap	253	(98)	-	155
Total stocks	3,986	(617)	-	3,369
Total	$ 4,009	$ (638)	$ -	$ 3,371

	Gains	Losses	OTTI	Net
December 31, 2018				
Bonds				
U.S. government	$ 1	$ (14)	$ -	$ (13)
Municipal agencies	9	(30)	-	(21)
Asset backed	-	(89)	-	(89)
Industrial and miscellaneous	13	(49)	-	(36)
Total bonds	23	(182)	-	(159)
Stocks				
Large cap	2,088	(27)	(30)	2,031
Mid cap	468	(28)	-	440
Small cap	209	(20)	(17)	172
Total stocks	2,765	(75)	(47)	2,643
Total	$ 2,788	$ (257)	$ (47)	$ 2,484

NOTE 4 - INVESTMENT SECURITIES (Continued)

Unrealized losses and related market value of investment securities are as follows:

	Less than 12 months		12 months or greater	
December 31, 2019	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Bonds				
U.S. government	$ (13)	$ 536	$ -	$ -

	Less than 12 months		12 months or greater	
December 31, 2018	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Bonds				
U.S. government	$ -	$ 350	$ (6)	$ 395
Municipal agencies	-	-	(27)	968
Asset backed	(2)	357	(42)	1,065
Industrial and miscellaneous	(10)	2,417	(2)	497
Total bonds	(12)	3,124	(77)	2,925
Stocks				
Large cap	(540)	2,426	-	-
Mid cap	(187)	749	-	-
Small cap	(122)	428	-	-
Total stocks	(849)	3,603	-	-
Total	$ (861)	$ 6,727	$ (77)	$ 2,925

The number of securities in an unrealized loss position at December 31, 2019 and 2018 were 1 and 227, respectively.

CCMC believes the unrealized losses, other than those that were determined to be OTTI, are temporary in nature and has not recorded a realized investment loss in its statements of income (loss) related to these securities. Given the size of its investment portfolio and anticipated future earnings, CCMC has the ability and intent to hold these securities until the fair value recovers the unrealized loss. Additionally, CCMC did not incur a material credit loss and does not have the intent to sell these bonds in an unrealized loss position.

The components of investment income for the years ended December 31 are as follows:

	2019	2018
Interest and dividends	$ 475	$ 583
Net realized gains	3,371	2,484
Gain on sale of real estate	-	10,037
Investment expense	(56)	(86)
Investment income	$ 3,790	$ 13,018

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

	2019	2018
Cost:		
Capitalized software	$ 69,050	$ 34,703
Work in progress	3,523	24,767
EDP equipment	12,450	10,633
Office equipment	4,978	4,797
Leasehold improvements	7,627	6,997
Automobiles	1,302	1,328
Equipment held under finance and capital leases	1,192	1,581
	100,122	84,806
Less: Accumulated amortization on capitalized software	(31,627)	(28,681)
Less: Other accumulated depreciation and amortization	(17,551)	(16,045)
Property and equipment, net	$ 50,944	$ 40,080
Depreciation and amortization expense on property and equipment	$ 5,086	$ 5,145

In 2017, CCMC commenced implementation of the underwriting, policy center, data hub and billing software for CCG. Software development costs of $33,453 have been capitalized and put into production as of December 31, 2019. $3,523 has been capitalized through 2019 and added to Work in Progress account until implementation of the next phase is completed, which is expected in 2021.

In 2018, CCMC sold the property located at 1650 Telstar Drive, Colorado Springs, CO, 80920 and leased it back from the buyer, Oak Real Estate Capital, for 12 years. The primary purpose of the transaction was to raise approximately $20 million in cash for CCMC. CCMC recognized a pre-tax gain on sale of $9,932. The amount of rent payments due over 12 years is approximately $20,561. CCIE is a guarantor on the lease for CCMC. If CCMC is unable to honor its future lease payments, then CCIE would be liable to pay these obligations.

In August 2019, CCMC entered into an installment payment agreement in connection with the acquisition of certain equipment. The term of the agreement is for 60 months with monthly payments of $26 and bears interest at a rate of 4.08%. As of December 31, 2019 the unpaid principal balance amounted to $1,290 with $244 included as a current liability within finance lease obligations and other.

NOTE 6 - CREDIT ARRANGEMENT

On June 1, 2018, CCMC entered into a lease agreement for a new home office. The lease requires CCMC to secure a letter of credit which may be used by the landlord to compensate for any loss due to CCMC's failure to fulfill its monetary obligations under the lease. A bank has an irrevocable $249 letter of credit in favor of BCSP Crossroads Property LLC.

A bank holds two standby letters of credit, totaling $109, which are held to secure future monetary obligations under expired large deductible workers' compensation insurance policies.

NOTE 7 - LEASE COMMITMENTS

CCMC has various lease agreements for office buildings, equipment and software. Certain leases have renewal options and certain office buildings and equipment have purchase options. Leases with an initial term of 12 months or less are not recorded on the balance sheets; CCMC recognizes lease expense on these leases on a straight-line basis over the lease term.

CCMC commenced a lease on a new home office on June 1, 2018. The term of the lease is 7 years and 10 months, with one option to extend the lease for a period of 5 years. The rent is abated during the first 10 months of the lease term. CCMC received a lease incentive of $2,820 associated with this lease.

In 2018, CCMC sold the property located at 1650 Telstar Drive, Colorado Springs, CO, 80920 and leased it back from the buyer, Oak Real Estate Capital, for 12 years, with 4 options to extend the lease for a period of 5 years each.

In 2017, CCMC entered into a lease agreement with IBM Credit LLC for equipment. The term of the lease is 5 years, with a purchase option of one dollar at the end of the lease term. With the adoption of ASC 842 this lease has been accounted for as a finance lease.

CCMC rents or subleases space in its offices to third parties. CCMC has one sublease in its Colorado Springs office, with the expected payments of $2,828 over the next 5 years.

A summary of lease assets and liabilities at December 31 is as follows:

	2019	2018
Assets		
Operating lease assets	$ 28,242	$ 32,570
Finance lease assets	1,192	1,581
Total lease assets	$ 29,434	$ 34,151
Liabilities		
Current		
Operating	$ 3,613	$ 4,107
Finance	394	372
Non-current		
Operating	28,567	32,199
Finance	705	1,099
Total lease liabilities	$ 33,279	$ 37,777

NOTE 7 - LEASE COMMITMENTS (Continued)

CCMC's finance leases have been recorded within property and equipment, net on the balance sheets.

Lease costs for the years ended December 31 are as follows:

	2019	2018
Operating lease cost	$ 4,431	$ 4,662
Finance lease cost		
Amortization of leased assets	389	1,223
Interest on lease liabilities	71	117
Sublease income	(740)	(877)
Net lease cost	$ 4,151	$ 5,125

A summary of maturities for operating and finance leases at December 31, 2019 is as follows:

	Operating Leases	Finance Leases
2020	$ 4,480	$ 444
2021	4,655	444
2022	4,727	295
2023	4,715	-
2024	4,051	-
Thereafter	13,622	-
Total lease payments	36,250	1,183
Less: Amount representing interest	(4,070)	(84)
Present value of lease liabilities	$ 32,180	$ 1,099

A summary of remaining lease terms and discount rates at December 31, 2019 and 2018 is as follows:

	2019	2018
Weighted-average remaining lease term:		
Operating leases	9 years	10 years
Finance leases	3 years	4 years
Weighted-average discount rate:		
Operating leases	2.83%	2.84%
Finance leases	5.48%	5.48%

NOTE 7 - LEASE COMMITMENTS (Continued)

Supplemental cash flow information related to leases for the years ended December 31 is as follows:

	2019	2018
Gains on sale and leaseback transactions, net	$ -	(10,037)
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	(4,229)	(3,000)
Operating cash flows from finance leases	(71)	(444)
Financing cash flows from finance leases	(372)	(1,869)
Leased assets obtained in exchange for new finance lease liabilities	141	-
Leased assets obtained in exchange for new operating lease liabilities	3,996	36,306

NOTE 8 - INCOME TAXES

A reconciliation of CCMC's effective income tax rate for each year is as follows:

	2019		2018	
	Amount	Percentage	Amount	Percentage
U.S. federal tax (statutory tax rate)	$ 1,222	21.0 %	$ 3,032	21.0 %
Tax-exempt income	(19)	(0.3)	(32)	(0.2)
All other items	108	1.9	270	1.2
Provision for income taxes (effective tax rate)	$ 1,311	22.6 %	$ 3,270	22.0 %

The significant components of the provision for income taxes for the years ended December 31 are summarized below:

	2019	2018
Current benefit	$ (99)	$ (7)
Deferred provision, noncurrent	1,410	3,277
Provision for income taxes	$ 1,311	$ 3,270

The provision for income taxes was increased by $4 of accrued interest and penalties related to unrecognized tax benefits for the year ended December 31, 2019.

Income taxes recoverable recorded on the balance sheet as of December 31, 2019 is reported net of a $51 liability for interest and penalties related to unrecognized tax benefits. CCMC does not expect any material changes in the liability for unrecognized tax benefits in 2019.

NOTE 8 - INCOME TAXES (Continued)

The significant components of the net deferred tax assets (liabilities) recorded on the balance sheets at December 31 are as follows:

	2019	2018
Deferred tax assets:		
Employee benefits	$ 17,574	$ 15,785
Building leases	9,492	8,612
Rent expense	69	58
Net operating loss	4,331	2,621
Fed charitable contributions carryforward	109	85
AMT credit carryforward	54	108
Realized book losses on OTTI securities	-	30
All other	63	55
Total deferred income tax assets	31,692	27,354
Deferred tax liabilities:		
Unrealized appreciation on investments	(60)	(405)
Building leases	(8,710)	(7,850)
Depreciation	(7,391)	(1,447)
Prepaid expenses	(85)	(75)
Internally developed computer software	(443)	(4,723)
Total deferred income tax liabilities	(16,689)	(14,500)
Net deferred income tax assets	$ 15,003	$ 12,854

Realization of these assets is primarily dependent upon generating sufficient future taxable income to utilize these assets. CCMC will establish a valuation allowance if it is more likely than not that these items will either expire before CCMC is able to realize their benefits, or that future deductibility is uncertain. There was no valuation allowance required at December 31, 2019 and 2018.

CCMC adjusts its tax liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. CCMC has no material uncertain tax positions at December 31, 2019 and 2018.

CCMC files income tax returns in the United States federal jurisdiction (Internal Revenue Service, or IRS) and various state jurisdictions. In the normal course of business, CCMC is subject to examination by taxing authorities from any of these jurisdictions. With few exceptions, CCMC is no longer subject to income tax examinations for years before 2016. CCMC is not currently under a federal income tax audit by the IRS.

NOTE 9 - SHAREHOLDERS' EQUITY (DEFICIT)

CCMC has authorized 1,800,000 and 1,000,000 shares of Series A and Series B common stock, respectively. Shares issued and outstanding, book value per share, and common stock issued and outstanding at December 31 are as follows:

	2019	2018
Shares issued and outstanding		
Series A	788,397	788,977
Series B	229,779	269,276
Total shares issued and outstanding	1,018,176	1,058,253
Book value per share	$ (18.90)	$ (5.02)

	2019	2018
Common stock issued and outstanding		
Series A	$ 3,816	$ 3,701
Series B	10,436	12,315
Total common stock	$ 14,252	$ 16,016

Adjusted book value per share is calculated as follows: total shareholders' equity (deficit) as determined under GAAP, plus the shareholder equity charges resulting from pension accounting (Note 11), divided by total outstanding shares of common stock. The calculation is as follows:

	2019	2018
Total shareholders' equity (deficit)	$ (19,242)	$ (5,310)
AOCI balance related to pension plan	61,225	54,608
Adjusted shareholders' equity	$ 41,983	$ 49,298
Total shares issued and outstanding	1,018,176	1,058,253
Adjusted book value per share	$ 41.23	$ 46.58

CCMC expects to recover employee retirement benefit plan funding shortfalls over time as pension expense is recognized in accordance with GAAP and reimbursed by CCG through the management fee. (Note 3).

The rights, privileges and restrictions of Series A and B are identical except holders of Series A shares have exclusive voting rights and power to vote upon election of Directors or upon any other matters. CCIE's put right is discussed in Note 3.

NOTE 10 - STOCK-BASED COMPENSATION PLANS

CCMC has two stock-based compensation plans: the Long Term Executive Incentive Plan ("LTEIP") and the Executive Stock Plan ("ESP"). The key provisions of each plan are described below. Both written plan documents are subject to review and approval by the California Department of Insurance, which requires, among other things, that CCMC annually report on all transactions made under the plans. Under both plans, if a plan participant's employment terminates because of death, disability, or retirement, CCMC has the right to repurchase that participant's shares at the most recently computed adjusted book value at the expiration of ten years after the termination of employment. If a plan participant's employment terminates for any other reason, CCMC has the right to repurchase that participant's shares for a period of 60 days after termination of employment. With the exception of ESP shares subject to a five-year holding period, plan participants have the right at any time to cause CCMC to repurchase all or any portion of their shares at adjusted book value by providing written notice to CCMC. Generally, to be eligible to receive an award under either plan, a participant must be a CCMC employee at the end of a plan performance period. However, under both plans, participants or their successors receive a prorated award if the participant dies, becomes disabled or retires during a performance period. The fair value of the restricted shares of common stock issued under both plans is considered equal to adjusted book value, as described in Note 9.

Key Provisions of LTEIP: The LTEIP provides key executives, all of whom are members of CCMC's Operating Committee, with incentive awards consisting of common stock and/or cash compensation, based on the attainment of specific annual profitability and other measures over a three-year performance period. A new three-year performance period commences on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The LTEIP requires that participants elect to receive at least 50% of their earned LTEIP award in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31 of the year prior to the date the stock is issued.

Awards are paid annually and are based on the preceding three-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Stock is issued prior to March 15th each year. Compensation expense under the LTEIP is measured during the performance period based on a best estimate of performance against the goals. Compensation expense under the LTEIP was $1,148 and $1,460 in 2019 and 2018, respectively. CCMC assumes no forfeitures during the payout period when determining compensation expense over the performance period. During 2019 and 2018 there were no forfeitures of earned awards. Under the LTEIP, 300,000 shares of Series B common stock have been reserved for issuance. Total shares issued under the LTEIP were 14,487 and 18,772 in 2019 and 2018, respectively.

The accrued liability for the LTEIP is comprised of $1,376 in current employee compensation liability and $1,216 in noncurrent employee compensation liability on the balance sheet at December 31, 2019. The accrued liability for the LTEIP is comprised of $1,423 in current employee compensation liability and $1,446 in noncurrent employee compensation liability on the balance sheet at December 31, 2018.

Key Provisions of ESP: The ESP provides all officers on the executive payroll with common stock and/or cash compensation based on the attainment of specific profitability and other measures over a one-year performance period, with a new performance period commencing on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The ESP requires that participants elect to receive at least 60% of their earned ESP awards in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31st of the year prior to the date the stock is issued.

NOTE 10 - STOCK-BASED COMPENSATION PLANS (Continued)

Awards are made annually, and are based on the preceding one-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Stock is issued prior to March 15th each year. Participants are required to hold all shares of common stock issued under the ESP for a minimum of five years from the date of issuance before exercising repurchase rights.

Compensation expense under the ESP was $360 and $549 in 2019 and 2018, respectively. Under the ESP, 150,000 shares of Series B common stocks have been reserved for issuance. Total shares issued under the ESP were 6,455 and 8,652 in 2019 and 2018, respectively. The accrued liability for the ESP was $360 and $549 at December 31, 2019 and 2018, respectively. These balances are included in current employee compensation liability on the balance sheets.

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS

CCMC provides defined contribution plans as well as both funded and unfunded noncontributory defined benefit pension plans. Substantially all of its employees participate in one or more of these plans. The funded plans are subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). All plans are described below.

Savings Investment Plans (the "SIPs"): CCMC sponsors a plan for hourly employees and a plan for salaried employees. The SIPs are qualified under section 401(k) of the Internal Revenue Code (the "Code"). Participating employees may elect to contribute a percentage of their annual compensation to the applicable SIP, limited to a maximum annual dollar amount as provided by the Code. These employees are eligible to receive a matching contribution from CCMC. Those matching contributions were $1,625 and $1,572 for the years ended December 31, 2019 and 2018, respectively.

Effective January 1, 2004, the SIPs were amended to add a new defined contribution feature. Employees hired, or employees rehired following a break in service of 12 months or more, on or after January 1, 2004 receive an annual service-based CCMC contribution of 3% to 7% of annual compensation depending on length of service. The expense for the defined contribution portion of the SIPs was $3,068 and $2,476 in 2019 and 2018, respectively. Effective January 1, 2020, the contribution percentage paid by CCMC was reduced by 50% for all employees.

Matching contributions and service-based contributions are vested to the employee on the following schedule:

Years of service	Vested Percentage
Less than two	0 %
Two	25 %
Three	50 %
Four	75 %
Five	100 %

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (the "Pension Plan"): The Pension Plan is qualified under Section 401(a) of the Code. The Pension Plan was amended in 2003 to exclude employees hired on or after January 1, 2004. Employees rehired on or after January 1, 2004, following a break in service of 12 months or more, are also excluded. Generally, benefits are based on length of service and the average of the highest earnings for five consecutive calendar years, or sixty months, whichever is greater. A participant is 100% vested after completion of five years of service.

Effective December 31, 2015, the Board of Directors adopted an amendment instituting a "hard freeze" of the Pension Plan so that no further benefits will accrue under the plan. All Pension Plan participants were enrolled in the Service-Based Contribution feature of the Savings Investment Plans (the "SIP") effective January 1, 2016.

Given the Pension Plan's freeze to future benefit accruals as of December 31, 2015, the amortization period for actuarial gains and losses was updated from the average future working lifetime of participants to the average life expectancy of participants effective January 1, 2016.

Pension Plan Benefits:

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 213,756	$ 232,429
Service cost	-	-
Interest cost	8,000	7,187
Benefits paid	(10,074)	(9,577)
Actuarial loss (gain)	25,034	(16,283)
Benefit obligation at end of year	236,716	213,756
Change in plan assets		
Fair value of plan assets at beginning of year	190,024	206,848
Actual return on plan assets	29,534	(7,247)
Employer contribution	-	-
Benefits paid	(10,074)	(9,577)
Fair value of plan assets at end of year	209,484	190,024
Funded status at end of year	$ (27,232)	$ (23,732)
Amounts recognized in the balance sheets consist of		
Noncurrent liabilities	$ (27,232)	$ (23,732)
Net amount recognized	$ (27,232)	$ (23,732)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of:		
Net loss	$ 77,454	$ 69,078
Accumulated other comprehensive loss	$ 77,454	$ 69,078

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

	2019	2018
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 236,716	$ 213,756
Accumulated benefit obligation	$ 236,716	$ 213,756
Fair value of plan assets	$ 209,484	$ 190,024
Components of net periodic benefit cost (income) and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	8,000	7,187
Expected return on assets	(14,294)	(14,267)
Amortization of net actuarial loss	1,418	1,994
Total pension income included in pension income on the statements of income (loss)	$ (4,876)	$ (5,086)
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 9,794	$ 5,231
Amortization of net actuarial loss	(1,418)	(1,994)
Total recognized in other comprehensive loss	8,376	3,237
Total recognized in net periodic benefit cost (income) and other comprehensive loss	$ 3,500	$ (1,849)
Weighted-average assumptions used to determine benefit obligation at December 31:		
Discount rate	3.02 %	4.07 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate - projected benefit obligation	4.07 %	3.44 %
Discount rate - interest cost	3.86 %	3.14 %
Rate of compensation increase	N/A	N/A
Expected return on plan assets	7.20 %	7.20 %
Cost of living	N/A	N/A

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year is $2,647.

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index.

As of January 1, 2016, CCMC changed the approach to measuring service and interest costs as part of the Pension Plan. CCMC elected to measure expense by applying the specific spot rates along that yield curve to the plans' liability cash flows. The new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of CCMC's plan obligations nor the funded status of the plan.

Pension Plan Assets: Fair value, asset allocations and target allocations at December 31 are as follows:

	2019		2018		2019
	Fair Value	Allocation	Fair Value	Allocation	Target Allocation
Equity funds					
Domestic large cap	$ 18,722	9%	$ 12,304	7%	10%
International	28,056	13%	29,080	15%	15%
Total equity funds	46,778	22%	41,384	22%	25%
Fixed income					
US government agencies	20,973	10%	24,029	13%	11%
Fixed income funds					
Domestic					
Long duration bond fund	67,561	32%	63,704	34%	
Intermediate duration bond fund	38,980	19%	29,278	15%	
High-yield	5,521	3%	4,434	2%	
International					
Emerging markets debt	3,714	1%	2,852	2%	
Total fixed income funds	115,776	56%	100,268	53%	54%
Real estate fund	24,775	12%	23,199	12%	10%
Cash and accrued income	1,182	0%	1,144	1%	0%
	$ 209,484	100%	$ 190,024	100%	100%

US government agencies are in Level 1 of the fair value hierarchy; See Note 4 for a description of Levels in the fair value hierarchy.

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Equity, fixed income funds, and real estate fund investments are measured at Net Asset Value (NAV) of the units held by the Plan at year-end. The NAV, as provided by the trustee of the fund, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Were the Plan to initiate a full redemption of the real estate fund, the issuer reserves the right to require sixty-five business days' notification in order to ensure that securities liquidation will be carried out in an ordinary business manner.

Investment Policies, Strategies and Target Asset Allocations: The CCMC Board of Directors has delegated authority for setting, monitoring, and adjusting the investment policy with respect to investment funds of the Pension Plan to the Pension Plan Committee ("Committee"). The Committee selects and retains investment managers who are responsible for managing the Pension Plan assets in accordance with the objectives and guidelines set forth in the Pension Plan's Investment Policy Statement ("IPS"). Investment managers are expected to comply with all laws, regulations, and standards of ethical conduct.

Investment guidelines and the Pension Plan's asset allocation targets are based upon long-term perspectives, so that interim fluctuations in investment markets should be viewed with appropriate perspective. Consistent with the desire for adequate asset diversification, the IPS is based upon the expectation that the volatility (the standard deviation of returns) of the total Pension Plan assets will be similar to that of the investment market.

The target asset allocation is designed to provide an optimal asset mix for the portfolio, which emphasizes diversification and maximizes return for relative risk. The IPS also sets guidelines to minimize investment risk by disallowing certain transactions or investments in certain securities. Transactions that would jeopardize the tax-exempt status of the Pension Plan are not allowed. Performance objectives are set by the IPS for each asset category listed above, and are reviewed at least annually by the Committee to determine if the established objectives are appropriate.

The expected return on Pension Plan assets is an assumption primarily determined by the investment strategy adopted to meet the objectives of the Pension Plan. This assumption is developed from investment manager capital market projections which include future returns by asset category, expected volatility of returns and correlation among asset classes. Consideration is also given to the expenses of active management. Judgment is applied to the quantitative measures derived from the capital market projections to arrive at the selected return on Pension Plan assets assumption. A change in the asset allocation could significantly impact the expected rate of return on plan assets.

Cash Flows:

Contributions: No contributions were made in 2019 and 2018. CCMC does not expect to contribute to the Pension Plan for 2020.

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Expected Future Benefit Payments: The following benefit payments, which reflect expected future service, are expected to be paid:

	Pension Benefits
2020	$ 10,820
2021	11,256
2022	11,548
2023	11,958
2024	12,286
Years 2025 - 2029	64,212
	$ 122,080

Supplemental Executive Retirement Plan and Excess Plan (the “SERP and Excess Plans”): The SERP and Excess Plans cover employees with earnings and/or benefits which exceed the limitations set out in the Pension Plan and/or the Code. Benefits are based on formulas similar to those of the Pension Plan.

The Excess Plan was frozen effective December 31, 2015. Effective January 1, 2016, CCMC adopted a new Service-Based Contribution Excess Benefit Plan (the “SBC Excess Plan”) to cover earnings and/or benefits that exceed the limits imposed by the Code for the Service-Based Contribution feature of the SIP. Benefits for the new SBC Excess Plan are based on the formula used for the SIP. CCMC accrued $220 and $208 for the contribution to the plan in 2019 and 2018, respectively.

Given the SERP & Excess Plans’ freeze to future benefits accruals as of December 31, 2015, the amortization period for actuarial gains and losses has been updated from the average future working lifetime of participants to the average life expectancy of participants effective January 1, 2016.

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

SERP and Excess Benefits:

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 45,391	$ 48,650
Service cost	-	-
Interest cost	1,688	1,428
Benefits paid	(3,437)	(3,341)
Actuarial loss (gain)	7,527	(1,346)
Benefit obligation at end of year	51,169	45,391
Change in plan assets		
Employer contributions	3,437	3,341
Benefits paid	(3,437)	(3,341)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (51,169)	$ (45,391)
Amounts recognized in the balance sheets consist of:		
Current liabilities	$ (3,524)	$ (3,318)
Noncurrent liabilities	(47,645)	(42,073)
Net amount recognized	$ (51,169)	$ (45,391)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of		
Net actuarial loss	$ 22,021	$ 15,123
Accumulated other comprehensive loss	$ 22,021	$ 15,123
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 51,169	$ 45,391
Accumulated benefit obligation	$ 51,169	$ 45,391

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

	2019	2018
Components of net periodic benefit cost (income) and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	1,688	1,428
Amortization of net actuarial loss	629	692
Total pension expense included in pension income on the statements of income (loss)	$ 2,317	$ 2,120
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss (gain)	$ 7,527	$ (1,346)
Amortization of net actuarial loss	(629)	(692)
Total recognized in other comprehensive loss	6,898	(2,038)
Total recognized in net periodic benefit cost and other comprehensive loss	$ 9,215	$ 82

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $912.

	2019	2018
Weighted-average assumptions used to determine benefit obligation at December 31:		
Discount rate	2.88 %	3.96 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate - projected benefit obligation	3.96 %	3.30 %
Discount rate - interest cost	3.77 %	2.98 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index. CCMC measures service and interest costs as part of SERP and Excess Plans expense by applying the specific spot rates along the yield curve to the plans' liability cash flows.

Cash Flows:

Contributions: Since the plan is unfunded, no contributions are made. However, benefit payments are treated as contributions.

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Expected Future Benefit Payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	SERP and Excess Benefits
2020	$ 3,524
2021	3,494
2022	3,463
2023	3,427
2024	3,436
Years 2025 - 2029	15,911
	$ 33,255

Accumulated Other Comprehensive Income ("AOCI"): The AOCI amounts related to employee retirement benefit plans recognized in the balance sheets, on an after-tax basis, were $78,591 and $66,525 at December 31, 2019 and 2018, respectively.

The following table summarizes the after-tax AOCI on employee retirement benefit plans:

	Pension Plan(1)	SERP & Excess Plans(2)	Total
AOCI balances, at December 31, 2017	$ 52,051	$ 13,526	$ 65,577
2018 activity			
Pension accounting charges	2,557	-	2,557
SERP and Excess Plans	-	(1,609)	(1,609)
Total 2018 activity	2,557	(1,609)	948
AOCI balances, at December 31, 2018	54,608	11,917	66,525
2019 activity			
Pension accounting charges	6,617	-	6,617
SERP and Excess Plans	-	5,449	5,449
Total 2019 activity	6,617	5,449	12,066
AOCI balances, at December 31, 2019	$ 61,225	$ 17,366	$ 78,591

(1) These after-tax GAAP pension plan accounting charges are utilized in the adjusted book value calculation (Note 9).

(2) These SERP and Excess Plan adjustments are excluded from the adjusted book value calculation (Note 9). They represent the cumulative difference between the accumulated benefit obligation and accrued benefit liability in the balance sheets.

NOTE 12 - CONCENTRATION OF CREDIT RISK

CCMC's financial instruments exposed to concentration of credit risk consist of cash equivalents. CCMC maintains its cash accounts primarily with banks. Cash balances are insured by the Federal Deposit Insurance Company ("FDIC") up to $250 per depositor. CCMC had cash on deposit with four banks at December 31, 2019 and 2018 that exceeded the balance insured by the FDIC in the amount of $2,872 and $6,033, respectively. CCMC has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

NOTE 13 - SUBSEQUENT EVENTS

CCMC has evaluated subsequent events through April 9, 2020, which is the date that the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of CCMC could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

In March 2020, CCIE's Advisory Board voted to approve the issuance of a $5,000 revolving line of credit to CCMC to be used as necessary.

Carl B. (Beau) Brown, CPCU
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Chairman of the Board

Joseph L. Volponi, FCAS
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Chief Executive Officer

Kenneth G. Berry
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T. Michael McCormick, Jr.
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Joseph C. Muenzen, CPCU
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Contact EQ Shareowner Services for CCMC shareholder services, including address changes, dividend issues, and share balance information:

Write: EQ Shareowner Services
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St. Paul, MN 55164-0854
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Contact CCMC on other shareholder issues:

Call: Mike Ray
1(800) 288-7765 ext. 4410

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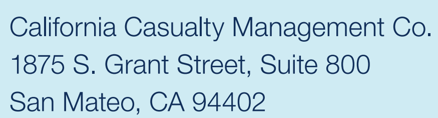

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