California Casualty Management Co.

ANNUAL REPORT TO SHAREHOLDERS

2020

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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."

During the COVID-19 pandemic, California Casualty Management Company ("CCMC") employees have been considered essential workers as part of a U.S. critical infrastructure sector, the Financial Services Sector, that includes insurance companies. Their dedication to providing California Casualty Group ("CCG") policyholders with uninterrupted service has been extraordinary, and we thank CCMC's employees for keeping California Casualty up and running for the educators, education support personnel, law enforcement, firefighters and nurses who have placed their trust in California Casualty.

The CCMC Board of Directors decided on March 3, 2020, not to declare a dividend for the first quarter of 2020 and to forego the declaration of dividends for the remainder of 2020. The decision to conserve cash by foregoing dividends was made due to the impact on CCMC by the following:

- Pension income, which creates an imbalance between CCMC cash outlays and recovery of cash from CCG
- Reduced CCMC markup charged to CCG due to poor CCG financial results, with general CCG operating losses compounded by three of the four most destructive wildfire years in California history
- Reduced cash and investment securities due to CCMC's Guidewire system investment to position the company competitively in the future, with CCMC cash outlays for the system to be recovered from CCG over the life of the system

On April 1, 2020, the CCMC Board voted to discontinue all stock repurchases and determined that the discontinuation of dividends was likely to continue through 2021 and perhaps beyond. After consideration of CCMC's liquidity needs due to the factors listed above, along with financial uncertainty generated from the pandemic, the CCMC Board decided that it was in the best interest of CCMC to discontinue stock repurchases for the foreseeable future and possibly through 2021 or longer. Further limiting CCMC's opportunity to increase future markup and improve cash flow at the time of this April 2020 decision were the continued reduction in CCG surplus and declining financial markets.

As the pandemic unfolded, CCMC's employees served our policyholders with courage and dedication. Their efforts sustained operations while CCG's surplus increased substantially as equity markets recovered and operating results benefited from $10.9 million in wildfire subrogation and reinsurance reinstatement premium recoveries; underwriting and process improvements; reduced driving due to the pandemic; staff reductions made in January 2020; and stable retention of customers at a very high level. Additionally, a NAIC accounting change favorably impacted how CCG's investment in CCMC is carried on CCG's balance sheet, resulting in a $15.6 million CCG surplus increase.

CCG must be healthy for CCMC to thrive, and CCG posted strong results in 2020. Still, CCMC's cash position remains deficient. At its December 8, 2020, meeting the CCMC Board reviewed a cash flow forecast indicating that CCMC's cash level may remain deficient until 2024. In 2020, CCMC borrowed from a $5.0 million revolving line of credit extended by CCG, drawing down $1.5 million in May 2020 and repaying the amount in September 2020. CCMC anticipates needing to draw on this revolving line of credit again during forecasted periods of low cash in 2022 and 2023.

CCMC continues to face the four primary challenges outlined in last year's 2019 CCMC Annual Report to Shareholders:

- CCG Profitability
- Guidewire Deployment
- California Property Exposure
- Pension Liability

The company made important progress in 2020 relative to three of these four challenges. The fourth, CCMC's pension liability, moved dramatically in the wrong direction due to declining interest rates.

PROGRESS TOWARD MEETING CHALLENGES

Challenge: CCG Profitability

It is critical for CCMC to manage CCG to consistent profitability. CCMC made progress in 2020 with respect to this challenge as CCG posted solid income and strong surplus growth.

In order for CCMC to recover cash from CCG and resume share repurchases and dividends, CCMC must manage CCG to continue this progress. California wildfires and operating losses in a subset of states were the primary causes of a deterioration of CCG surplus extending from 2014 to 2019. Results in 2020 sharply countered this unfavorable trend.

Still, the $10.9 million in wildfire-related recoveries are non-recurring, and strong equity market performance may not repeat. Though driving patterns have shifted, Americans are back on the road again, and rate mitigation decisions made in mid-2020 as policyholders drove fewer miles will weigh on CCG's results in 2021 and 2022.

It is difficult for an insurer of CCG's size and near-national footprint to compete with market share leaders. CCMC's strategy to overcome obstacles and achieve its goals includes a focus on increasing California Casualty's multi-channel presence and effectiveness at the state- and local-levels; implementing underwriting process and automation enhancements; leveraging system capabilities to enable product and pricing enhancements; upgrading CCMC's claims system to improve efficiency and effectiveness; and continuing to pursue initiatives aimed at curbing future adverse loss development patterns.

Challenge: Guidewire Deployment

CCMC must successfully deploy Guidewire in states as scheduled and within budget. The company made substantial progress on its Guidewire deployment in 2020. Project challenges and risk remain, but we are in a far better position than a year ago, and we continue to learn lessons that reduce risk as we deploy states.

Guidewire cost overruns and deployment delays in prior years have negatively impacted CCMC's current cash position. CCMC net cash outflows for Guidewire totaled $44 million during the period 2017 to 2020. Net cash outflows will be approximately $3.0 million in 2021, followed by positive net cash inflows of approximately $1.1 million in 2022. These amounts will be recovered over the life of the system, with relatively large net cash inflows during 2023 to 2026.

States representing more than 60 percent of CCG's customers are on the new system as of year-end, reflecting five successful 2020 state deployments, including California and Colorado. The current accelerated plan is to have states representing over 86 percent of customers in Guidewire by the end of 2021, as seven additional key states will go live, including Oregon.

We thank all who have worked on this project for pushing through difficult times. Successfully installing Guidewire is essential for CCG to compete in an increasingly digital insurance marketplace.

Challenge: California Property Exposure

CCG's catastrophe losses in 2020, one of the three most destructive wildfire years in California history, significantly exceeded the catastrophe load used in CCG's forecast. On the other hand, CCG's 2020 wildfire losses were much lower than expected if CCG's market share is applied to actual industry wildfire losses, and this relative outperformance indicates progress toward managing CCG's California property exposure.

CCMC continues to carefully monitor the accumulation of exposures in wildfire risk areas. CCMC's newly developed proprietary underwriting model for wildfire risk using Fireline scoring in the context of a matrix of other factors aided 2020 results. Additionally, CCMC's Reinsurance Committee purchased $66 million of 2021 reinsurance coverage above a $10 million retention and 42 percent co-participation on the first $10 million layer, continuing with both the additional upper layer protection it secured starting in 2020 and the lower retention it has maintained since 2019.

Challenge: Pension Liability

CCMC did not make progress with respect to its pension liability in 2020. CCMC was hit hard in 2020 by declining interest rates that generated further actuarial losses for CCMC's qualified defined benefit pension plan ("Pension Plan"), creating a large negative impact on CCMC's Generally Accepted Accounting Principles (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 negative $3.16 per share impact to both in 2020 (see Note 11, footnote (2)).

CCMC's liabilities for its frozen qualified and non-qualified pension plans are extremely 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 yield was 0.93 percent on January 1, 2021.

The Pension Plan has generated substantial pension income rather than pension expense in the period 2016 to 2020. CCMC recovers cash as pension expense is recognized according with GAAP and reimbursed by CCG, while an imbalance between CCMC cash outlays and recovery of cash from CCG occurs during periods of pension income.

Declining interest rates drove an increase in CCMC Pension Plan liabilities from $236.7 million at December 31, 2019, to $257.5 million at December 31, 2020, and the Pension Plan funded ratio declined from 88.5 percent to 85.0 percent. This funded ratio deterioration is despite a 10.7 percent investment return in 2020.

CCMC's non-qualified Supplemental Executive Retirement Plan and Excess Plan ("SERP and Excess Plans") are unfunded (see Note 11).

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 faces significant challenges. CCMC must manage CCG to consistent profitability so that CCMC can meet its challenges and resume share repurchases and dividends.

CCMC FINANCIAL PERFORMANCE

CCMC net income in 2020 was $5.1 million, compared to $4.5 million in 2019. 2020 pre-tax income was $6.7 million, compared to $5.8 million in 2019. CCMC investment income was $0.4 million in 2020, compared to $3.8 million, including $3.4 million in net realized gains on the sale of investment securities, in 2019.

CCMC's 2020 total revenue was $134.8 million, compared to $126.0 million in 2019. CCMC benefitted in 2020 from a $1.6 million incentive fee earned based upon solid 2020 CCG pre-tax income results. CCMC did not earn an incentive fee in 2019 because CCG produced a pre-tax loss in 2019.

CCMC's 2020 return on adjusted beginning shareholders' equity of $42.0 million was 12.8 percent. In comparison, CCMC's 2019 return on adjusted beginning shareholders' equity of $49.3 million was 9.1 percent. CCMC's 12.8 percent return on equity in 2020 is higher than both CCMC's 10-year historical average of 8.4 percent and CCMC's 20-year historical average of 11.4 percent. With solid 2020 CCG profitability, CCMC was able to take a normal markup after seven years, from 2013 to 2019, of reduced markup to support CCG. Markup reductions in 2013 to 2019 boosted CCG's combined ratio by approximately 0.8 - 0.9 percentage points in each year of this seven-year period.

Adjusted shareholder total return was 4.3 percent in 2020 compared to negative 4.6 percent in 2019. On an adjusted basis, total return of 4.3 percent was lower than the 12.8 percent return on equity due to other comprehensive losses of $3.3 million. This includes a $0.2 million decrease in net unrealized gains on investment securities and a $3.1 million unfavorable pension-related adjustment. Total adjusted shareholder return of 4.3 percent in 2020 was lower than CCMC's 10-year and 20-year historical averages of 6.7 percent and 10.0 percent, respectively. On December 31, 2020, the adjusted book value per share of CCMC common stock was $42.80, up $1.57 from $41.23 at December 31, 2019.

CCMC paid no dividends in 2020. CCMC had $9.3 million in cash and investment securities on December 31, 2020, down from $12.8 million on December 31, 2019. CCMC's cash fluctuates seasonally.

On a GAAP basis, CCMC had a shareholders' deficit of $32.0 million and a book value per share of negative $32.24 on December 31, 2020, compared to a shareholders' deficit on December 31, 2019, of $19.2 million and a book value per share of negative $18.90. 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 on December 31, 2007, are removed to generate CCMC's adjusted book value of $42.80.

CCMC did not make a contribution to the Pension Plan in 2020, and it made no contributions in 2016 to 2019. In 2013, 2014 and 2015, CCMC made contributions totaling $39.0 million to the Pension Plan. The Pension Plan was 85.0 percent funded on December 31, 2020, with $218.8 million in assets compared to $257.5 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 poor 2020 homeowners results, auto results were strong and led to solid overall profitability for CCG. CCG's 2020 personal lines combined ratio was 99.2 percent, compared to 110.4 percent in 2019.

CCG's personal lines incurred loss ratio improved from 71.4 percent in 2019 to 58.1 percent in 2020. CCG's 2020 auto incurred loss ratio was 55.3 percent, compared to 71.1 percent in 2019. CCG's 2020 home incurred loss ratio was 66.6 percent, compared to 72.5 percent in 2019. CCG's home loss ratio benefitted from a $6.8 million PG&E wildfire net subrogation recovery in June 2020 and a $2.5 million Southern California Edison subrogation recovery in September 2020. The gross subrogation recovery from PG&E was $23.8 million, with $17.0 million paid to fully reimburse CCG's reinsurers, resulting in a $1.6 million reinstatement premium recovery for CCG. CCG added $6.0 million in bulk reserves for personal lines in 2020 to address prior accident year adverse loss development.

CCG's direct written premium grew from $393.7 million in 2019 to $395.6 million in 2020, an increase of 0.5 percent. CCG's 2020 auto net earned premium was $297.3 million, compared to $294.9 million in 2019. CCG's 2020 home net earned premium was $95.5 million, compared to $86.7 million in 2019.

CCG's 2020 total customer retention was 92.3 percent, two-tenths lower than its 2019 customer retention of 92.5 percent. Customers-in-force declined by 1,530 from 165,825 on December 31, 2019, to 164,295 on December 31, 2020, weighed down by new customer production that was 83.0 percent of plan. It is important to note that states in which CCMC has tightened underwriting accounted for 1,182 of the 1,530 overall drop in customers.

CCG produced net income of $15.8 million in 2020 compared to a net loss of $29.3 million in 2019. CCG surplus increased by $41.7 million, growing from $167.2 million on December 31, 2019, to $208.9 million on December 31, 2020.

Unrealized gains and losses on bonds are not reported for statutory purposes as a component of an insurer's surplus. With continued declining interest rates in 2020, CCG's bond portfolio on December 31, 2020, had an unrealized gain of $16.6 million compared to an unrealized gain of $10.2 million on December 31, 2019.

If CCIE exercised its right to put 186,000 shares back to CCMC, CCG's surplus would increase by approximately $14.7 million based on 2020 year-end values. If CCIE should exercise that put option, CCMC would be required to purchase the shares at an 85 percent premium to adjusted book value. That would produce a corresponding decline in adjusted book value for all other shareholders of approximately 19.6 percent. Note 3 of CCMC's financial statements, "Related Party Transactions", describes the details of CCIE's investment in CCMC.

CCG's 2020 total expense ratio, as a percentage of net earned premium, deteriorated to 41.1 percent, compared to 39.5 percent for 2019. CCG's personal lines underwriting expense ratio, as a percent of net written premium, was 28.3 percent in 2020 compared to 26.2 percent in 2019. Guidewire system deployment and a corresponding ramp up of project depreciation added $6.7 million to expenses.

CCG's 2020 operating cash flow ratio improved to 103.9 percent while its underwriting cash flow ratio was 100.7 percent, compared to 93.3 percent and 90.2 percent, respectively, in 2019.

In June 2020, A.M. Best Company rated CCIE and its three personal lines subsidiaries at B++ (Good) with a "negative outlook".

UNINTERRUPTED SERVICE

In 2020 CCMC employees delivered uninterrupted service to California Casualty's policyholders in this most difficult time, one when nurses, law enforcement, firefighters and educators have been stretched to do their jobs in a manner that would have been unimaginable a year ago.

It has not been easy for CCMC's employees. COVID-19 is a force that imposed sickness, hardship and grief on members of our team. While it would have been easy to give in to extensive fatigue that results from shelter-in-place orders, racial injustice, transitioning workplaces, school closures, caring for children and other household members, continuous video meetings, and mandatory face mask requirements, we appreciate the endurance and focus CCMC's employees demonstrated in 2020. We thank CCMC's employees for their dedication to California Casualty and our policyholders, and for their contribution as essential workers to help sustain our country's economy.

Carl B. Brown

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

Joseph L. Volponi

Joe Volponi, FCAS
President
Chief Executive Officer

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, 2020 and 2019, and the related statements of income 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, 2020 and 2019, 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

Crowe LLP

Fort Lauderdale, Florida
April 7, 2021

BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,177	$ 3,508
Investment securities	102	9,270
Receivables	3,249	2,817
Income taxes recoverable	4	119
Prepaid expenses and other	5,730	5,398
Total current assets	18,262	21,112
Property and equipment, net	50,799	50,944
Operating lease assets	25,150	28,242
Deferred income taxes, net	17,855	15,003
Other noncurrent assets	973	1,248
Total assets	$ 113,039	$ 116,549
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	$ 2,997	$ 4,531
Accrued employee compensation	14,631	14,917
Accrued benefit liability	3,538	3,524
Taxes payable	641	452
Operating lease obligations	4,000	3,613
Finance lease obligations and other	1,648	1,200
Total current liabilities	27,455	28,237
Operating lease obligations	25,003	28,567
Finance lease obligations	290	705
Noncurrent notes payable	769	1,046
Accrued benefit liability	90,089	75,691
Noncurrent employee compensation	1,180	1,217
Other noncurrent liabilities	255	328
Total liabilities	145,041	135,791
Shareholders' equity (deficit)		
Common stock - no par value	13,042	14,252
Common stock with put right (Note 3)	14,729	14,188
Accumulated other comprehensive loss	(94,029)	(77,404)
Retained earnings	34,256	29,722
Total shareholders’ equity (deficit)	(32,002)	(19,242)
Total liabilities and shareholders’ equity (deficit)	$ 113,039	$ 116,549

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

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

YEARS ENDED DECEMBER 31, 2020 AND 2019

(DOLLARS IN THOUSANDS)

2020

	2020	2019
Revenue:		
Management fee	$ 133,285	$ 124,490
Other	1,527	1,550
Total revenue	134,812	126,040
Operating expenses		
Personnel	77,841	79,834
Acquisition and professional services	24,071	21,781
Facility and equipment	21,380	15,879
Communications	5,952	6,480
Other	2,276	2,501
Total operating expenses	131,520	126,475
Operating income (loss)	3,292	(435)
Investment income (includes reclassification of $248 and $2,663, net of tax of $66 and $708, for 2020 and 2019, respectively from other comprehensive loss for net gain on investments)	361	3,790
Interest expense	(113)	(95)
Pension income	3,116	2,559
Income before provision for income taxes	6,656	5,819
Provision for income taxes	1,514	1,311
Net income	5,142	4,508
Other comprehensive income (loss), net of tax		
Unrealized net gain on investments (net of tax of $7 and $362 for 2020 and 2019, respectively)	28	1,360
Less: Reclassification adjustment for net gain included in net income (net of tax of $66 and $708 for 2020 and 2019, respectively)	(248)	(2,663)
Change in employee retirement benefit plans (net of tax of $4,361 and $3,208 for 2020 and 2019, respectively) (Note 11)	(16,405)	(12,066)
Other comprehensive loss	(16,625)	(13,369)
Comprehensive loss	$ (11,483)	$ (8,861)

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

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	Common Stock	Common Stock with Put Right	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances at January 1, 2019	$ 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)
Net income	-	-	-	5,142	5,142
Change in carrying value of common stock with put right (Note 3)	-	541	-	(541)	-
Common stock retired (43,973 shares)	(1,973)	-	-	(67)	(2,040)
Stock issued in long-term executive incentive plan (12,889 shares)	531	-	-	-	531
Stock issued in executive stock plan (5,640 shares)	232	-	-	-	232
Change in unrealized net gain on investments, net of deferred tax of ($59)	-	-	(220)	-	(220)
Change in employee retirement benefit plans, net of deferred tax of ($4,361) (Note 11)	-	-	(16,405)	-	(16,405)
Balances at December 31, 2020	$ 13,042	$ 14,729	$ (94,029)	$ 34,256	$ (32,002)

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

(DOLLARS IN THOUSANDS)

2020

	2020	2019
Cash flows from operating activities		
Net income	$ 5,142	$ 4,508
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization on property and equipment including leased assets	13,935	9,521
Amortization on bonds	1	28
Net gain on sale and disposal of property and equipment	(84)	(66)
Net realized gain on investment securities	(314)	(3,371)
Provision for deferred income taxes	1,567	1,404
Changes in:		
Receivables and other assets	(1,694)	(668)
Payables, accrued expenses, and other liabilities	(10,086)	(8,150)
Net cash provided by operating activities	8,467	3,206
Cash flows from investing activities		
Proceeds from sale of property and equipment	133	102
Purchase of property and equipment	(9,371)	(15,989)
Proceeds from sale and maturities of investment securities	9,202	17,213
Purchase of investment securities	-	(700)
Net cash (used in) provided by investing activities	(36)	626
Cash flows from financing activities		
Payments on finance lease obligations	(393)	(372)
Payments on notes payable	(314)	(112)
Proceeds from related party loan	1,500	-
Payment on related party loan	(1,515)	-
Common stock retired	(2,040)	(2,832)
Dividends paid to shareholders	-	(3,215)
Net cash used in financing activities	(2,762)	(6,531)
Net change in cash and cash equivalents	5,669	(2,699)
Cash and cash equivalents at the beginning of the year	3,508	6,207
Cash and cash equivalents at the end of the year	$ 9,177	$ 3,508
Supplemental disclosure of cash flow information		
Cash paid (received) during the year for income taxes	$ (249)	$ 11
Supplemental schedule of noncash investing and financing activities		
Lease obligations arising from right-of-use assets from leases	$ 1,321	$ 3,996
Property and equipment purchased but not yet paid for	$ 57	$ 770
Note payable issued in exchange for equipment purchase	$ -	$ 1,424
Common stock issued through employee stock plans	$ 763	$ 976

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 debt securities, the amount of an OTTI related to a credit loss is recognized in investment income as a realized loss. Similarly, an impairment on a debt security 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 debt security. The amount of an unrealized loss on debt securities 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.

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, 2020 and 2019. 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 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 performance obligations are 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. 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. CCMC's Board of Directors does not have the power to direct the activities of CCG. Additionally, CCMC has no obligation to absorb losses or the right to receive benefits from CCG. Therefore management has concluded 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. 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. 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: 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 on January 1, 2019 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of CCMC could be materially adversely affected in future years. 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. As of December 31, 2020, CCMC has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of CCMC.

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 2020 earned premium and surplus are approximately $392,900 and $208,900, 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. An incentive fee of $1,581 was earned by CCMC in 2020. No incentive fee was earned by CCMC in 2019. 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, 2020 and 2019 are as follows:

	2020	2019
Expenses incurred	$ 128,464	$ 123,644
Markup taken	3,240	846
Incentive fee	1,581	-
State income tax adjustments	-	-
Net management fee	$ 133,285	$ 124,490
Maximum markup allowed (25% of expenses incurred)	$ 32,116	$ 30,911
Markup taken	(3,240)	(846)
Markup allowed but not taken	$ 28,876	$ 30,065

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 $404 and $491 for expenses incurred under this provision in 2020 and 2019, respectively. These transactions are shown as a reduction of CCMC expense, rather than revenue.

At December 31, 2020 and 2019, CCMC had a receivable due from CCG of $3,166 and $2,601, 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 18.7% and 18.3% at December 31, 2020 and 2019, 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, 2020 and 2019, the resulting adjusted book value to the remaining shareholders will be reduced by approximately 19.6% and 19.0%, respectively. At December 31, 2020 and 2019, the carrying value of the common stock with put rights was $14,729 and $14,188, 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). In March of 2020, CCMC's Board voted to temporarily cease dividends. The Board will re-evaluate the continuation of dividend payments on a quarterly basis. There were no dividends paid by CCMC to CCIE during 2020. CCMC paid dividends to CCIE of $558 in 2019.

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.

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

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, 2020				
Debt securities				
U.S. government	$ 102	$ -	$ -	$ 102
Total	$ 102	$ -	$ -	$ 102

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Debt securities				
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

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

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

NOTE 4 - INVESTMENT SECURITIES (Continued)

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2020				
Debt securities				
U.S. government	$ 99	$ 3	$ -	$ 102
Total	$ 99	$ 3	$ -	$ 102

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2019				
Debt securites				
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

The amortized cost and fair value of debt securities at contractual maturities of one to five years at December 31, 2020 are $99 and $102, respectively. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

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

NOTE 4 - INVESTMENT SECURITIES (Continued)

Proceeds from sales of stocks during 2020 and 2019 were $0 and $11,010, respectively. Proceeds from sales and maturities of debt securities during 2020 and 2019 were $9,202 and $6,203, 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
2020				
Debt securities				
U.S. government	$ 24	$ (2)	$ -	$ 22
Municipal agencies	57	-	-	57
Asset backed	34	-	-	34
Industrial and miscellaneous	201	-	-	201
Total bonds	316	(2)	-	314
Total	$ 316	$ (2)	$ -	$ 314

	Gains	Losses	OTTI	Net
2019				
Debt securities				
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

As of December 31, 2020, the Company did not hold any investments in an unrealized loss position. Unrealized losses and related market value of investment securities as of December 31, 2019 are as follows:

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

The number of securities in an unrealized loss position at December 31, 2019 was 1.

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

NOTE 4 - INVESTMENT SECURITIES (Continued)

The components of investment income for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Interest and dividends	$ 41	$ 475
Net realized gains	314	3,371
Investment income (expense)	6	(56)
Investment income	$ 361	$ 3,790

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2020 and 2019 is as follows:

	2020	2019
Cost:		
Capitalized software	$ 76,049	$ 69,050
Work in progress	4,469	3,523
EDP equipment	13,089	12,450
Office equipment	5,303	4,978
Leasehold improvements	8,083	7,627
Automobiles	1,017	1,302
Equipment held under finance and capital leases	803	1,192
	108,813	100,122
Less: Accumulated amortization on capitalized software	(38,694)	(31,627)
Less: Other accumulated depreciation and amortization	(19,320)	(17,551)
Property and equipment, net	$ 50,799	$ 50,944
Depreciation and amortization expense on property and equipment	$ 9,523	$ 5,086

In 2017, CCMC commenced implementation of the underwriting, policy center, data hub and billing software for CCG. Cumulative software development costs of $39,592 and $33,453 have been capitalized and put into production as of December 31, 2020 and 2019. Software development costs included in work in progress were $4,412 and $3,211 as of December 31, 2020 and 2019, respectively.

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. 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.

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

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, 2020 the unpaid principal balance amounted to $1,024 with $255 included as a current liability within finance lease obligations and other.

NOTE 6 - CREDIT ARRANGEMENTS

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.

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. In May of 2020, CCMC drew $1,500 from the line of credit. The entire principal balance was paid back to CCIE in September of 2020 along with $15 in interest expense. As of December 31, 2020, there was no outstanding balance on the line of credit.

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 was 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 $2,101 over the next 5 years.

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

NOTE 7 - LEASE COMMITMENTS (Continued)

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

	2020	2019
Assets		
Operating lease assets	$ 25,150	$ 28,242
Finance lease assets	803	1,192
Total lease assets	$ 25,953	$ 29,434
Liabilities		
Current		
Operating	$ 4,000	$ 3,613
Finance	415	394
Non-current		
Operating	25,003	28,567
Finance	290	705
Total lease liabilities	$ 29,708	$ 33,279

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:

	2020	2019
Operating lease cost	$ 4,412	$ 4,431
Finance lease cost		
Amortization of leased assets	389	389
Interest on lease liabilities	50	71
Sublease income	(740)	(740)
Net lease cost	$ 4,111	$ 4,151

A summary of maturities for operating and finance leases at December 31, 2020 is as follows:

	Operating Leases	Finance Leases
2021	$ 4,761	$ 444
2022	4,830	295
2023	4,798	-
2024	4,133	-
2025	4,188	-
Thereafter	9,501	-
Total lease payments	32,211	739
Less: Amount representing interest	(3,208)	(34)
Present value of lease liabilities	$ 29,003	$ 705

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

NOTE 7 - LEASE COMMITMENTS (Continued)

A summary of remaining lease terms and discount rates at December 31, 2020 and 2019 is as follows:

	2020	2019
Weighted-average remaining lease term:		
Operating leases	7 years	9 years
Finance leases	2 years	3 years
Weighted-average discount rate:		
Operating leases	2.80%	2.83%
Finance leases	5.48%	5.48%

Supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ (4,498)	$ (4,229)
Operating cash flows from finance leases	(50)	(71)
Financing cash flows from finance leases	(393)	(372)
Leased assets obtained in exchange for new finance lease liabilities	-	141
Leased assets obtained in exchange for new operating lease liabilities	1,321	3,996

NOTE 8 - INCOME TAXES

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

	2020		2019	
	Amount	Percentage	Amount	Percentage
U.S. federal tax (statutory tax rate)	$ 1,398	21.0 %	$ 1,222	21.0 %
Tax-exempt income	(1)	(0.0)	(19)	(0.3)
All other items	117	1.8	108	1.9
Provision for income taxes (effective tax rate)	$ 1,514	22.8 %	$ 1,311	22.6 %

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

NOTE 8 - INCOME TAXES (Continued)

The significant components of the provision for income taxes for the years ended December 31, 2020 and 2019 are summarized below:

	2020	2019
Current benefit	$ (61)	$ (99)
Deferred provision, noncurrent	1,575	1,410
Provision for income taxes	$ 1,514	$ 1,311

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, 2020.

Income taxes recoverable recorded on the balance sheet as of December 31, 2020 is reported net of a $55 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 2020.

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

	2020	2019
Deferred tax assets:		
Employee benefits	$ 20,713	$ 17,574
Operating and capital leases	10,564	9,492
Rent expense	54	69
Net operating loss	4,342	4,331
Fed charitable contributions carryforward	118	109
Foreign credit carryforward	33	-
AMT credit carryforward	-	54
All other	71	63
Total deferred income tax assets	35,895	31,692
Deferred tax liabilities:		
Unrealized appreciation on investments	(1)	(60)
Operating and capital leases	(9,772)	(8,710)
Depreciation	(7,254)	(7,391)
Prepaid expenses	(128)	(85)
Internally developed computer software	(885)	(443)
Total deferred income tax liabilities	(18,040)	(16,689)
Net deferred income tax assets	$ 17,855	$ 15,003

As of December 31, 2020, the Company had $20,676 of net operating loss carryforwards available. $10,883 of that carryforward will begin to expire in 2034 and $9,793 can carryforward indefinitely. As of December 31, 2020, the Company had no capital loss carryforwards available.

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

NOTE 8 - INCOME TAXES (Continued)

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, 2020 and 2019.

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, 2020 and 2019.

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 2017. 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:

	2020	2019
Shares issued and outstanding		
Series A	787,796	788,397
Series B	204,936	229,779
Total shares issued and outstanding	992,732	1,018,176
Book value per share	$ (32.24)	$ (18.90)

	2020	2019
Common stock issued and outstanding		
Series A	$ 3,812	$ 3,816
Series B	9,230	10,436
Total common stock	$ 13,042	$ 14,252

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

NOTE 9 - SHAREHOLDERS' EQUITY (DEFICIT) (Continued)

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:

	2020	2019
Total shareholders' equity (deficit)	$ (32,002)	$ (19,242)
AOCI balance related to pension plan	74,496	61,225
Adjusted shareholders' equity	$ 42,494	$ 41,983
Total shares issued and outstanding	992,732	1,018,176
Adjusted book value per share	$ 42.80	$ 41.23

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.

Effective April 2020, the Board elected to discontinue stock repurchases for the foreseeable future. The Board will re-evaluate continuation of repurchases on a quarterly basis.

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.

NOTE 10 - STOCK-BASED COMPENSATION PLANS (Continued)

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 $1,222 and $1,148 in 2020 and 2019, respectively. CCMC assumes no forfeitures during the payout period when determining compensation expense over the performance period. During 2020 and 2019 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 12,889 and 14,487 in 2020 and 2019, respectively.

The accrued liability for the LTEIP is comprised of $1,236 in current employee compensation liability and $1,180 in noncurrent employee compensation liability on the balance sheet at December 31, 2020. 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.

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.

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 $474 and $360 in 2020 and 2019, respectively. Under the ESP, 150,000 shares of Series B common stocks have been reserved for issuance. Total shares issued under the ESP were 5,640 and 6,455 in 2020 and 2019, respectively. The accrued liability for the ESP was $474 and $360 at December 31, 2020 and 2019, respectively. These balances are included in current employee compensation liability on the balance sheets.

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

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 $1,568 and $1,625 for the years ended December 31, 2020 and 2019, 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 in 2020 of 1.5% to 3.5% of annual compensation depending on length of service. Prior to 2020, the contribution rate was 3% to 7%. The expense for the defined contribution portion of the SIPs was $1,216 and $3,068 in 2020 and 2019, respectively.

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 %

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.

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Pension Plan Benefits:

	2020	2019
Change in benefit obligation		
Benefit obligation at beginning of year	$ 236,716	$ 213,756
Service cost	-	-
Interest cost	6,250	8,000
Benefits paid	(10,638)	(10,074)
Actuarial loss	25,180	25,034
Benefit obligation at end of year	257,508	236,716
Change in plan assets		
Fair value of plan assets at beginning of year	209,484	190,024
Actual return on plan assets	19,990	29,534
Employer contribution	-	-
Benefits paid	(10,638)	(10,074)
Fair value of plan assets at end of year	218,836	209,484
Funded status at end of year	$ (38,672)	$ (27,232)
Amounts recognized in the balance sheets consist of		
Noncurrent liabilities	$ (38,672)	$ (27,232)
Net amount recognized	$ (38,672)	$ (27,232)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of:		
Net loss	$ 94,253	$ 77,454
Accumulated other comprehensive loss	$ 94,253	$ 77,454

	2020	2019
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 257,508	$ 236,716
Accumulated benefit obligation	$ 257,508	$ 236,716
Fair value of plan assets	$ 218,836	$ 209,484

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

	2020	2019
Components of net periodic benefit cost (income) and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	6,250	8,000
Expected return on assets	(14,294)	(14,294)
Amortization of net actuarial loss	2,685	1,418
Total pension income included in pension income on the statements of income	$ (5,359)	$ (4,876)
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 19,484	$ 9,794
Amortization of net actuarial loss	(2,685)	(1,418)
Total recognized in other comprehensive loss	16,799	8,376
Total recognized in net periodic benefit cost (income) and other comprehensive loss	$ 11,440	$ 3,500

	2020	2019
Weighted-average assumptions used to determine benefit obligation at December 31:		
Discount rate	2.20 %	3.02 %
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	3.02 %	4.07 %
Discount rate - interest cost	2.70 %	3.86 %
Rate of compensation increase	N/A	N/A
Expected return on plan assets	7.20 %	7.20 %
Cost of living	N/A	N/A

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 $3,580.

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

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

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:

	2020		2019		2020
	Fair Value	Allocation	Fair Value	Allocation	Target Allocation
Equity funds					
Domestic	$ 20,691	10%	$ 18,722	9%	10%
International	30,940	14%	28,056	13%	15%
Total equity funds	51,631	24%	46,778	22%	25%
Fixed income					
US government agencies	17,647	8%	20,973	10%	10%
Fixed income funds					
Domestic					
Long duration bond fund	66,702	31%	67,561	32%	28%
Intermediate duration bond fund	46,090	21%	38,980	19%	22%
High-yield	6,194	3%	5,521	3%	3%
International					
Emerging markets debt	4,133	2%	3,714	1%	2%
Total fixed income funds	123,119	57%	115,776	56%	55%
Real estate fund	24,908	11%	24,775	12%	10%
Cash and accrued income	1,531	0%	1,182	0%	0%
	$ 218,836	100%	$ 209,484	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.

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.

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

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. Effective January 1, 2021, the expected rate of return on plan assets was reduced from 7.20% to 7.10%.

Cash Flows:

Contributions: No contributions were made in 2020 and 2019. CCMC does not expect to contribute to the Pension Plan for 2021.

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

	Pension Benefits
2021	$ 11,322
2022	11,698
2023	12,034
2024	12,353
2025	12,675
Years 2026 - 2030	64,868
	$ 124,950

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

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 $126 and $220 for the contribution to the plan in 2020 and 2019, 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.

SERP and Excess Benefits:

	2020	2019
Change in benefit obligation		
Benefit obligation at beginning of year	$ 51,169	$ 45,391
Service cost	-	-
Interest cost	1,288	1,688
Benefits paid	(3,464)	(3,437)
Actuarial loss	4,923	7,527
Benefit obligation at end of year	53,916	51,169
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Employer contributions	3,464	3,437
Benefits paid	(3,464)	(3,437)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (53,916)	$ (51,169)
Amounts recognized in the balance sheets consist of:		
Current liabilities	$ (3,538)	$ (3,524)
Noncurrent liabilities	(50,378)	(47,645)
Net amount recognized	$ (53,916)	$ (51,169)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of		
Net actuarial loss	$ 25,988	$ 22,021
Accumulated other comprehensive loss	$ 25,988	$ 22,021
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 53,916	$ 51,169
Accumulated benefit obligation	$ 53,916	$ 51,169

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

NOTE 11 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

	2020	2019
Components of net periodic benefit cost and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	1,288	1,688
Amortization of net actuarial loss	955	629
Total pension expense included in pension income on the statements of income	$ 2,243	$ 2,317
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 4,923	$ 7,527
Amortization of net actuarial loss	(955)	(629)
Total recognized in other comprehensive loss	3,968	6,898
Total recognized in net periodic benefit cost and other comprehensive loss	$ 6,211	$ 9,215

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 $1,171.

	2020	2019
Weighted-average assumptions used to determine benefit obligation at December 31:		
Discount rate	1.99 %	2.88 %
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	2.88 %	3.96 %
Discount rate - interest cost	2.57 %	3.77 %
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.

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

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
2021	$ 3,538
2022	3,510
2023	3,479
2024	3,464
2025	3,419
Years 2026 - 2030	15,665
	$ 33,075

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 $94,996 and $78,591 at December 31, 2020 and 2019, 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, 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
2020 activity			
Pension accounting charges	13,271	-	13,271
SERP and Excess Plans	-	3,134	3,134
Total 2020 activity	13,271	3,134	16,405
AOCI balances, at December 31, 2020	$ 74,496	$ 20,500	$ 94,996

(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, 2020 and 2019 that exceeded the balance insured by the FDIC in the amount of $8,609 and $2,872, 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 7, 2021, which is the date that the financial statements were available to be issued.

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

Joseph L. Volponi, FCAS
Director
President
Chief Executive Officer

Kenneth G. Berry
Director

Thomas R. Brown, CLU
Director
Chairman Emeritus

Marston Nauman
Director
Vice Chairman-Emeritus

Robert R. Nicolay III
Director

Michael A. Ray, CPA
Director
Executive Vice President
Chief Financial Officer
Treasurer

James M. Sevey, CPCU
Director

Thomas M. Tongue, Esq.
Director

Hong Chen, FCAS
Senior Vice President
Actuary

Fong-Yee Judy Jao, FCAS, MAAA
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James R. Kauffman, Esq.
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Claims

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Human Resources

T. Michael McCormick, Jr.
Senior Vice President
Chief Marketing Officer

Joseph C. Muenzen, CPCU
Senior Vice President
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Transfer Agent/Shareholder Services:

EQ Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

Contact EQ Shareowner Services for CCMC shareholder services, including address changes, dividend issues, and share balance information:

Write: EQ Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

Call: 1(800) 468-9716

Contact CCMC on other shareholder issues:

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

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