

**SRP CAPTIVE RISK SOLUTIONS, LIMITED
MEETING NOTICE AND AGENDA – AMENDED**

BOARD OF DIRECTORS MEETING

Monday, August 23, 2021, 9:30 AM

SRP Captive Risk Solutions, Limited meetings will be held via teleconference until further notice. The public may access these teleconference meetings by contacting the Corporate Secretary's Office at (602) 236-4398.

Directors: David Rousseau, President; John Hoopes, Vice President; Debbie Hendrickson, Mario Herrera, and Jack White Jr.

Call to Order

Roll Call

1. **CONSENT AGENDA:** The following agenda item(s) will be considered as a group by the Board of Directors and will be enacted with one motion. There will be no separate discussion of these item(s) unless a Board Member requests, in which event the agenda item(s) will be removed from the Consent Agenda and considered as a separate item..... PRESIDENT DAVID ROUSSEAU

- Request for approval of the minutes for the meeting of January 11, 2021

2. Review and Request for Approval of Audited Financials TEMPE ROBINS,
STRATEGIC RISK SOLUTIONS
3. Financials Results and Management Report TEMPE ROBINS,
STRATEGIC RISK SOLUTIONS

Informational presentation by Strategic Risk Solutions (SRS), the management company for SRP Captive Risk Solutions, Ltd. (SRPCRS), regarding a review of the SRPCRS financial results and a management report including an update on Arizona Department of Insurance and Financial Institutions regulatory compliance.

4. Review of Interim Financials JEFFREY WRIGHT
5. Excess Liability Policy for SRP MARCIA PHILPOTT

Request for approval to renew the \$2,000,000 excess liability policy for SRP (which is the layer above the SRP \$1,000,000 self-insured amount) through SRP Captive Risk Solutions, Ltd. effective October 15, 2021, at a cost not to exceed the 25% budgeted increase.

6. Liability Terrorism Wrap Reinsurance Program MARCIA PHILPOTT

Request for approval to renew the Liability Terrorism Wrap Reinsurance from Lloyd's of London and to renew the Liability Terrorism coverage offered to SRP for the corporate liability program both effective October 15, 2021.

- 7. Unmanned Aircraft Systems Physical Damage Insurance.....MARCIA PHILPOTT

Request for approval to renew the physical damage insurance policy covering all SRP owned Unmanned Aircraft Systems (UAS)/drones effective October 15, 2021.

- 8. AdjournPRESIDENT DAVID ROUSSEAU

The Board may vote during the meeting to go into Executive Session, pursuant to A.R.S. §38-431.03(A)(3), for the purpose of discussion or consultation for legal advice with legal counsel to the Board on any of the matters listed on the agenda.



**NOTICE WILL BE SENT REGARDING THE NEXT
SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD MEETING**

MINUTES
BOARD OF DIRECTORS
SRP CAPTIVE RISK SOLUTIONS, LIMITED

DRAFT

January 11, 2021

A meeting of the Board of Directors of the SRP Captive Risk Solutions, Limited (the Captive), an Arizona corporation, convened at 9:30 a.m. on Monday, January 11, 2021, via teleconference from the Geronimo Conference Room at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona. This meeting was conducted via teleconference in compliance with open meeting law guidelines.

Directors of the Captive present at roll call via teleconference were David Rousseau, President of the Captive and SRP; John R. Hoopes, Vice President of the Captive and SRP; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr. of SRP.

Also present via teleconference were Anda G. McAfee, Director of SRP; Mark L. Farmer, Council Chairman of SRP; Rocky J. Shelton, Council Vice Chairman of SRP; Brian J. Koch, Treasurer of the Captive and Corporate Treasurer of SRP; John M. Felty, Secretary of the Captive and Corporate Secretary of SRP; Lora F. Hobaica, Assistant Secretary of the Captive and Assistant Corporate Secretary of SRP; Mmes. Melissa J. Burger, Katie I. Cormier, Sara C. McCoy, Sue Ann Perkinson, Marcia J. Philpott, and Corissa M. Sifuentes of SRP; Messrs. Aidan J. McSheffrey, Michael J. O'Connor, James M. Pratt, Robert R. Taylor, and Jeffrey A. Wright of SRP; and Michelle Lee and Tempe Robins of Strategic Risk Solutions, Inc. (SRS) of the State of Arizona.

In compliance with A.R.S. §38-431.02, Merari Eastman of the SRP Corporate Secretary's Office had posted a notice and agenda of the meeting of the Board of Directors of the Captive at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona, at 9:00 a.m. on Friday, January 8, 2021.

President and Director D. Rousseau served as Chairman and called the meeting to order at 9:30 a.m. He acknowledged the existence of a quorum of the Board of Directors of the Captive.

Consent Agenda

President and Director D. Rousseau requested a motion for approval of the Consent Agenda, in its entirety.

On a motion duly made by Director J.M. White Jr. and seconded by Director D.S. Hendrickson, the Board of Directors of the Captive unanimously approved and adopted the following item on the Consent Agenda:

- Approval of the minutes for the meeting of August 18, 2020, as presented

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director J.M. White Jr.'s motion to approve the Consent Agenda, in its entirety. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Approval for Renewal of Property Terrorism Risk Insurance Coverage through the Captive

Using a PowerPoint presentation, Marcia J. Philpott, SRP Manager of Insurance Services, stated that the purpose of the presentation was to request approval to authorize the Captive to renew Terrorism Risk Insurance for SRP.

Ms. M.J. Philpott reported that on December 10, 2014, the Federal House of Representatives passed an extension on terrorism coverage. She explained the specifics of the extension which included a 6-year reauthorization of terrorism coverage. Ms. M.J. Philpott discussed the program trigger, co-share, program cap, deductible, and certification. She discussed the Terrorism Risk Insurance Program Reauthorization Act of 2019.

Ms. M.J. Philpott provided an overview of the expiring program and the proposed program, with the proposed program term starting June 15, 2021 and ending June 15, 2022. She concluded by recommending that the Captive renew Terrorism Risk Insurance for SRP at a cost not to exceed a 15% increase over the expiring annual premium and reinsure through Lloyds of London not to exceed a 15% increase over expiring annual premium on June 15, 2021.

On a motion duly made by Director M.J. Herrera, seconded by Director J.M. White Jr. and carried, the Board granted approval.

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director M.J. Herrera's motion for approval. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Approval of Third Party Vendors for Audit and Actuary Services for the Fiscal Year 2021 Annual Audit

Using a PowerPoint presentation, Ms. M.J. Philpott stated that the purpose of the presentation was to request approval of the utilization of recommended third party vendors for the Captive for the Fiscal Year 2021 (FY21) annual audit.

Ms. M.J. Philpott reported that the audit will be performed by Crowe LLP for a fee of \$19,500 and that the actuary services will be performed by Walter J. Haner, FCAS, MAAA, and Walter Haner & Associates, Inc. for a fee of \$4,800.

Ms. M.J. Philpott concluded by requesting approval of the utilization of the recommended third party vendors in connection with the FY21 annual audit.

On a motion duly made by Director J.M. White Jr., seconded by Director D.S. Hendrickson and carried, the Board granted approval.

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director J.M. White Jr.'s motion for approval. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Approval for the Renewal of Medical Stop Loss Coverage through the Captive

Using a PowerPoint presentation, Ms. M.J. Philpott stated that the purpose of the presentation was to request approval for the renewal of Medical Stop Loss (MSL) coverage for SRP through the Captive and procurement of reinsurance coverage.

Ms. M.J. Philpott stated that the approach considered with the Captive includes retaining more risk with SRP, increasing the commercial market attachment point to reduce fixed expense, and providing a cost benefit to the SRP Benefits Group. She said that Management worked with the Captive's broker, McGriff, Siebel's and Williams, and the Captive's manager, Strategic Risk Solutions. Ms. M.J. Philpott reported that the SRP Benefits Group chose to move the program into the Captive for the 2015 policy term and that the program was renewed by the Board for the past five years.

Ms. M.J. Philpott provided an overview of the 2015, 2016, 2017, 2018, and 2019 MSL financials and claim history. She detailed the current MSL coverage structure, as follows:

- SRP retains \$500,000 for each insured life
- SRP Captive retains \$750,000 for each insured life
- Reinsurance reimburses the Captive for all losses in excess of its retention

Continuing, Ms. M.J. Philpott reviewed the MSL financials for 2020 and reviewed the proposed 2021 renewal and estimated totals. She concluded by requesting authorization to renew MSL coverage for SRP through the Captive and procurement of reinsurance coverage to limit the risk incurred for the Captive, as presented.

On a motion duly made by Director M.J. Herrera, seconded by Director J.M. White Jr. and carried, the Board granted approval.

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director M.J. Herrera's motion for approval. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Approval of Operating Budget for Fiscal Year 2022

Using a PowerPoint presentation, Jeff A. Wright, SPR Director of Financial Reporting, reviewed the key elements of the proposed Operating Budget for FY22, including the estimated income and expenses. He concluded by recommending that the Board approve the proposed Operating Budget for FY22, as presented.

On a motion duly made by Director D.S. Hendrickson, seconded by Director M.J. Herrera and carried, the Board granted approval.

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director D.S. Hendrickson's motion for approval. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Review of Interim Financial Statements

Using a PowerPoint presentation, Mr. J.A. Wright reviewed the interim financial statements of the Captive for the six-month period ended October 31, 2020 compared to the same period a year prior.

Randy J. Miller, Director of SRP, entered the meeting during the presentation.

Report on Appointment of Directors for Fiscal Year 2022

Using a PowerPoint presentation, President and Director D. Rousseau stated that Arizona law permits the shareholders of a corporation to act by written consent in lieu of a meeting. The Bylaws of the Captive (Article II, Section 2.3) state that SRP, as the sole shareholder of the Captive, would take action during the month of January of each calendar year to appoint Directors of the Captive for the ensuing year. The Bylaws also state that SRP may designate one or more authorized representatives to act on behalf of SRP in its capacity as the sole shareholder. In February 2004, the SRP Board authorized the President of SRP to vote SRP's shares of stock in the Captive with enumerated exceptions for significant actions.

President and Director D. Rousseau stated that, in accordance with these provisions, he had taken action by written consent to appoint the following slate of Directors of the Captive for FY22:

- Deborah S. Hendrickson
- Mario J. Herrera
- John R. Hoopes
- David Rousseau
- John M. White Jr.

Copies of the PowerPoint slides used in this presentation and the written consent are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Appointment of Officers for Fiscal Year 2022

Using a PowerPoint presentation, President and Director D. Rousseau reminded the Members that the Bylaws of the Captive (Article IV, Section 4.2) provide that the Board of Directors at each annual meeting in January would appoint the officers of the Captive to serve for the ensuing fiscal year. He stated that the incumbent members are David Rousseau, President; John R. Hoopes, Vice President; Brian J. Koch, Treasurer; Dale R. Politi, Assistant Treasurer; John M. Felty, Secretary; and Lora F. Hobaica, Assistant Secretary.

President and Director D. Rousseau recommended that the Board appoint the officers to serve in the following capacities in fiscal year ending April 2021: David Rousseau, President; John R. Hoopes, Vice President; Brian J. Koch, Treasurer; Dale Politi, Assistant Treasurer; John M. Felty, Secretary; and Lora F. Hobaica, Assistant Secretary.

On a motion duly made by Director J.M. White Jr., seconded by Director M.J. Herrera and carried, the Board adopted the following resolution:

RESOLUTION

RESOLVED, that the following persons are hereby appointed as officers of SRP Captive Risk Solutions, Limited, to serve in their respective capacities in Fiscal Year 2022:

President	David Rousseau
Vice President	John R. Hoopes
Treasurer	Brian J. Koch
Assistant Treasurer	Dale R. Politi
Secretary	John M. Felty
Assistant Secretary	Lora F. Hobaica

RESOLVED FURTHER, that the officers of SRP Captive Risk Solutions, Limited, are hereby authorized, empowered and directed to execute such documents, instruments and other writings, and to do all such things on behalf of and in the name of SRP Captive Risk Solutions, Limited, as may be deemed appropriate, required or necessary to perform the duties incidental to their respective offices.

Corporate Secretary J.M. Felty polled the Directors via teleconference on Director J.M. White Jr.'s motion for approval. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Deborah S. Hendrickson, Mario J. Herrera, and John M. White Jr.	(5)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Report on Conflict of Interest Statements

Secretary J.M. Felty stated that, in accordance with the requirements of the Captive Insurance Division of the State of Arizona, all officers and directors of a captive insurance company must complete a Conflict of Interest Statement form at its annual meeting in January of each year. He said that the form states, among other things, that the individuals have no conflict of interest with their responsibilities as officers or directors of the Captive. Secretary J.M. Felty concluded by stating that all of the officers and directors of the Captive had completed and signed their Conflict of Interest Statement forms.

Copies of the Conflict of Interest Statement forms signed by the officers and directors are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

There being no further business to come before the Board, the meeting adjourned at 9:58 a.m.

John M. Felty
Secretary



To the Board of Directors of
SRP Captive Risk Solutions, Limited

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of SRP Captive Risk Solutions, Limited (the Company) for the year ended April 30, 2021, and have issued our report thereon dated June 28, 2021. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Arizona Board of Public Accountancy.
- b. The engagement partner, who is a certified public accountant, has fifteen of experience in public accounting and is experienced in auditing insurance entities. Members of the engagement team, all of whom have had experience in auditing insurance entities and all of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Company intends to file its audited financial statements and our report thereon with the Arizona Department of Insurance and Financial Institutions and other state insurance departments in which the Company is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the financial condition of the Company.

While we understand that an objective of issuing a report on the financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of the insurance regulators. In this context, the Company and insurance commissioners should understand that the objective of an audit of the financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the financial statements present fairly in all material respects, the financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

The insurance commissioners should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the financial position of insurers and should not rely solely upon the independent auditor's report.

- d. We will retain the working papers prepared in the conduct of our audit until the Arizona Department of Insurance and Financial Institutions has filed a Report on Examination covering 2021, but no longer than seven years. After notification to the Company, we will make the working papers available for review by the Arizona State Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the insurance commissioners. Furthermore, in the conduct of the aforementioned periodic review by the Arizona State Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Arizona State Department of Insurance. In addition, to the extent requested, we may provide the Arizona Department of Insurance and Financial Institutions with copies of certain of our audit working papers (such as unlocked electronic copies of Excel spreadsheets that do not contain password protection or encryption). As such, these audit working papers will be subject to potential modification by the Arizona Department of Insurance and Financial Institutions or by others. We are not responsible for any modifications made to the copies, electronic or otherwise, after they are provided to the Arizona Department of Insurance and Financial Institutions and we are likewise not responsible for any effect that any such modifications, whether intentional or not, might have on the process, substance or outcome of your regulatory examination.
- e. The engagement partner has served in that capacity with respect to the Company since 2021, is licensed by the Connecticut State Board of Accountancy with CPA mobility allowing for the signing of our opinion in the State of Arizona and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of the rules and regulations of the Arizona Department of Insurance and Financial Institutions regarding qualifications of independent certified public accountants.

The letter is intended solely for the information and use of the Board of Directors, management, and the Arizona Department of Insurance and Financial Institutions and is not intended to be and should not be used by anyone other than these specified parties.



Crowe LLP



Crowe LLP
Independent Member Crowe Global

To the Board of Directors of
SRP Captive Risk Solutions, Limited

In planning and performing our audit of the financial statements of SRP Captive Risk Solutions, Limited ("Company") as of and for the year ended April 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Directors and the Arizona Department of Insurance and Financial Institutions and is not intended to be and should not be used by anyone other than these specified parties.


Crowe LLP

Simsbury, Connecticut
June 28, 2021

SRP CAPTIVE RISK SOLUTIONS, LIMITED

FINANCIAL STATEMENTS

April 30, 2021 and 2020

SRP CAPTIVE RISK SOLUTIONS, LIMITED

FINANCIAL STATEMENTS

April 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder of
SRP Captive Risk Solutions, Limited

Report on the Financial Statements

We have audited the accompanying financial statements of SRP Captive Risk Solutions, Limited (the Company), which comprise the balance sheets as of April 30, 2021 and 2020, and the related statements of operations, changes in stockholder's equity, 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 the 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 Company'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 Company'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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SRP Captive Risk Solutions, Limited as of April 30, 2021 and 2020, 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.

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the incurred and paid claims development tables, by accident year for the years ended April 30, 2012 to April 30, 2020, as well as the average annual percentage payout for claims duration as of April 30, 2021, shown in Note 5, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Crowe LLP

Simsbury, Connecticut
June 28, 2021

SRP CAPTIVE RISK SOLUTIONS, LIMITED
BALANCE SHEETS
April 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 7,535,854	\$ 5,606,247
Investments, held to maturity, at amortized cost	3,826,567	6,334,594
Premiums receivable	1,277,244	1,191,780
Deferred reinsurance	423,192	408,776
Losses receivable	-	60,052
Reinsurance recoverable on unpaid losses	298,061	258,393
Reinsurance recoverable on paid losses	741,789	442,566
Accrued interest	22,528	31,605
Prepaid expenses and other assets	<u>9,167</u>	<u>9,168</u>
Total assets	<u>\$ 14,134,402</u>	<u>\$ 14,343,181</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 3,514,931	\$ 3,511,175
Unearned premiums	1,619,502	1,507,470
Reinsurance payable	435,964	374,476
Losses payable	463,028	-
Accrued expenses	<u>24,300</u>	<u>24,300</u>
Total liabilities	6,057,725	5,417,421
Stockholder's equity		
Common stock, \$1 par, 100,000 shares authorized, issued and outstanding	100,000	100,000
Additional paid-in capital	3,973,265	3,973,265
Retained earnings	<u>4,003,412</u>	<u>4,852,495</u>
Total stockholder's equity	<u>8,076,677</u>	<u>8,925,760</u>
Total liabilities and stockholder's equity	<u>\$ 14,134,402</u>	<u>\$ 14,343,181</u>

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

SRP CAPTIVE RISK SOLUTIONS, LIMITED
STATEMENTS OF OPERATIONS
Years Ended April 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Net earned premiums	\$ 2,206,355	\$ 1,878,952
Net Investment income	<u>92,605</u>	<u>261,791</u>
Total revenues	2,298,960	2,140,743
Losses and expenses		
Incurred losses and loss adjustment expenses	3,055,901	2,743,237
General and administrative expenses	<u>92,142</u>	<u>88,136</u>
Total losses and expenses	<u>3,148,043</u>	<u>2,831,373</u>
Net loss before federal income tax provision	(849,083)	(690,630)
Federal income tax provision	<u>-</u>	<u>-</u>
Net loss	<u>\$ (849,083)</u>	<u>\$ (690,630)</u>

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

SRP CAPTIVE RISK SOLUTIONS, LIMITED
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended April 30, 2021 and 2020

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance as of May 1, 2019	100,000	\$ 100,000	\$ 3,422,075	\$ 5,543,125	\$ 9,065,200
Capital contribution	-	-	551,190	-	551,190
Net loss	-	-	-	(690,630)	(690,630)
Balance as of April 30, 2020	100,000	100,000	3,973,265	4,852,495	8,925,760
Net loss	-	-	-	(849,083)	(849,083)
Balance as of April 30, 2021	<u>100,000</u>	<u>\$ 100,000</u>	<u>\$ 3,973,265</u>	<u>\$ 4,003,412</u>	<u>\$ 8,076,677</u>

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

SRP CAPTIVE RISK SOLUTIONS, LIMITED
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net loss	\$ (849,083)	\$ (690,630)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization (accretion) of premiums (discounts) on investments	3,027	(8,329)
Changes in assets and liabilities:		
Premiums receivable	(85,464)	(105,446)
Deferred reinsurance	(14,416)	28,526
Losses receivable	60,052	(60,052)
Reinsurance recoverable on unpaid losses	(39,668)	(111,737)
Reinsurance recoverable on paid losses	(299,223)	(442,566)
Accrued interest	9,078	(15,098)
Prepaid expenses and other assets	-	6,884
Unpaid losses and loss adjustment expenses	3,756	134,732
Unearned premiums	112,032	219,164
Reinsurance payable	61,488	(76,873)
Losses payable	463,028	-
Accrued expenses	-	(3,875)
Net cash used in operating activities	(575,393)	(1,125,300)
Cash flows from investing activities:		
Purchases of investments	-	(7,015,444)
Maturities of investments	2,505,000	6,400,000
Net cash provided by (used in) financing activities	2,505,000	(615,444)
Cash flows from financing activities:		
Capital contribution	-	551,190
Net cash provided by financing activities	-	551,190
Net change in cash and cash equivalents	1,929,607	(1,189,554)
Cash and cash equivalents, beginning of year	5,606,247	6,795,801
Cash and cash equivalents, end of year	\$ 7,535,854	\$ 5,606,247

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

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 1 - GENERAL

Reporting Entity: SRP Captive Risk Solutions, Limited (the Company), a wholly owned subsidiary of Salt River Project Agricultural Improvement and Power District (SRP), was incorporated and commenced operations on January 1, 2004. SRP provides electricity to more than 1 million retail customers in the Phoenix area. It operates or participates in twelve major power plants and numerous generating stations, including nuclear and hydroelectric sources. The Company is a single parent captive insurance company licensed by the Arizona Department of Insurance and Financial Institutions (the Department). The Company currently provides excess general and auto liability coverage, unmanned aircraft, medical stop loss, terrorism property and terrorism general liability coverage to SRP and its affiliates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Cash and Cash Equivalents: Cash and cash equivalents are comprised of interest and non-interest bearing cash accounts and money market funds. The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. It is the Company's policy to monitor the financial strength of the bank that holds its deposits on an ongoing basis. During the normal course of business, the Company maintains cash balances in excess of the FDIC insurance limit.

As of April 30, 2021 and 2020, the Company held \$6,786,320 and \$5,301,690, respectively, in money market funds.

Investments: The Company accounts for its investments in accordance with FASB ASC 320, "*Investments - Debt Securities*". Management determines the appropriate classification of its investments in debt securities at the time of purchase and re-evaluates such determination at each balance sheet date.

As of April 30, 2021 and 2020, all of the Company's investments are classified as held to maturity, as the Company has the positive intent and ability to hold these securities to maturity. Held to maturity securities are carried at amortized cost.

The amortized cost of debt securities are adjusted using the effective interest rate method for amortization of premiums and accretion of discounts. Such amortization and accretion are included in net investment income in the statements of operations. Interest income is recorded on an accrual basis.

Other-Than-Temporary Impairment of Investments: The Company accounts for other-than-temporary impairments of debt securities using the provisions of FASB ASC 320 related to the recognition of other-than-temporary impairments of debt securities. This guidance requires the Company to evaluate whether it intends to sell an impaired debt security or whether it is more likely than not that it will be required to sell an impaired debt security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For impaired debt securities that do not meet this criteria, the Company determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the security's amortized cost and its projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized as a component of comprehensive income. The Company recognized no other-than-temporary impairment losses during 2021 and 2020.

Fair Value Measurements: Estimated fair values are measured in accordance with FASB ASC 820, "*Fair Value Measurements and Disclosures*." For financial statement elements currently required to be measured at fair value, FASB ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements. The definition of fair value focuses on the price that would be received to sell the asset, which is referred to as the exit price. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs in valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - Observable inputs that reflect quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The Company has recorded its investments at amortized cost and has disclosed fair value information in Note 4.

Premiums Receivable: Premiums receivable are recorded net of any allowance for uncollectible accounts. As of April 30, 2021 and 2020, no allowance was necessary, as the balance is considered to be fully collectible.

Unpaid Losses and Loss Adjustment Expenses: The liability for unpaid losses and loss adjustment expenses and the related reinsurance recoverables includes estimates for reported losses, plus supplemental amounts for projected incurred but not reported losses, calculated based upon actuarial loss projections using historical loss experience and industry data. In establishing this liability and the related reinsurance recoverables, the Company utilizes the findings of an independent actuary. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses and related reinsurance recoverables at year-end represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the limited population of insured risks and the limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability and asset at the balance sheet dates.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, the ultimate liability and asset could vary significantly from the amount indicated in these financial statements. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

Recognition of Premium Revenues: Premiums written are earned pro-ratably over the terms of the policies to which they relate. Premiums written relating to the unexpired portion of policies in force at the balance sheet dates are recorded as unearned premiums.

Premium Deficiency: The Company recognizes premium deficiencies when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of expected losses and loss adjustment expenses, expected policyholder dividends and maintenance costs exceed unearned premiums and anticipated investment income. No premium deficiencies have been recognized in 2021 and 2020.

Federal Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, "Income Taxes." FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities.

The Company accounts for uncertain tax positions in accordance with certain provisions of FASB ASC 740, which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. Under FASB ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not have any unrecognized tax benefits as of and for the years ended April 30, 2021 and 2020. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of April 30, 2021 and 2020, the Company did not record any interest or penalties associated with unrecognized tax benefits. All tax years from 2018 and forward are open and subject to examination.

The Company does not qualify as an insurance company for federal income tax purposes. As a result, the Company accounts for premium payments as deposit arrangements for federal income tax purposes. The Company, as a captive insurance company for state purposes, pays an annual insurance renewal fee, but does not pay state income tax or premium tax, as neither are required by Arizona captive laws regardless of Federal tax treatment.

Reinsurance: In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, "Financial Services - Insurance." Ceded premium is expensed over the period that coverage is provided. Deferred reinsurance premiums are calculated on a daily pro-rata basis for the unexpired terms of the policies in force. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy. As these estimates change, the adjustment is recorded in the current period.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with 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 reported period. Actual results could differ from those estimates.

Risks and Uncertainties: 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 and was declared a national emergency in March of 2020. The operations and business results of the company could be materially adversely affected. The extent to which the coronavirus or various state stay at home orders 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.

Subsequent Events: Subsequent events have been evaluated through June 28, 2021, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

The amortized cost and fair value of the held to maturity securities as of April 30, 2021 and 2020, are as follows:

<u>2021</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. government and government agency securities	\$ 1,500,177	\$ 4,653	\$ -	\$ 1,504,830
Corporate bonds	1,001,743	4,040	-	1,005,783
Municipal bonds	<u>1,324,647</u>	<u>5,047</u>	<u>-</u>	<u>1,329,694</u>
Total debt securities	<u>\$ 3,826,567</u>	<u>\$ 13,740</u>	<u>\$ -</u>	<u>\$ 3,840,307</u>
<u>2020</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. government and government agency securities	\$ 3,001,372	\$ 33,314	\$ -	\$ 3,034,686
Corporate bonds	2,010,651	13,472	-	2,024,123
Municipal bonds	<u>1,322,571</u>	<u>25,974</u>	<u>-</u>	<u>1,348,545</u>
Total debt securities	<u>\$ 6,334,594</u>	<u>\$ 72,760</u>	<u>\$ -</u>	<u>\$ 6,407,354</u>

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of held to maturity securities as of April 30, 2021, by contractual maturity, are as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due to mature:		
One year or less	<u>\$ 3,826,567</u>	<u>\$ 3,840,307</u>
Total	<u>3,826,567</u>	<u>3,840,307</u>

As of April 30, 2021 and 2020, the Company held no debt securities in an unrealized loss position.

NOTE 4 - FAIR VALUE

The Company classifies all its investments as Level 2 in accordance ASC 820 as disclosed in Note 2.

Generally, the Company determines the estimated fair value of its held to maturity portfolio using the market approach. For level 2 investments, for which prices are determined by management after considering prices received from third party pricing services, inputs include the following:

U.S. government and government agency securities - Valued based on United States Treasury feeds and yield to maturity. In addition, certain securities are valued using vendor trading platform data.

Corporate bonds - Primary inputs include the defined sector, benchmark yields, yield to maturity and adjustments related to corporate actions.

Municipal bonds - Bonds are based on benchmark yields, yield to worst or market convention, and adjustments for material event notices. In addition to the standard inputs described above, certain bonds are valued using vendor trading platform data.

NOTE 5 - INSURANCE ACTIVITY

The Company provides general and auto excess liability insurance on a claims-made basis to SRP and its affiliates. Coverage is provided with a per occurrence limit of \$2,000,000 excess of a \$1,000,000 self-insured retention with a retroactive date of October 15, 2009, and a per occurrence limit of \$1,000,000 excess of a \$1,000,000 self-insured retention for claims occurring between October 15, 2000 and October 14, 2009. These policies have no annual aggregate limit. Defense costs erode the policy limits.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

Effective January 1, 2015, the Company provides medical stop loss coverage to the Parent. After a \$500,000 deductible per covered person, the policy has no per occurrence, annual aggregate or lifetime aggregate limits. The Company has obtained reinsurance for medical stop loss coverage with no annual or lifetime aggregate limits. Effective January 1, 2020, reinsurance obtained is in excess of \$1,250,000 per covered person. Effective January 1, 2019, reinsurance obtained is in excess of \$1,000,000 per covered person. Losses for medical stop loss submitted to the Company at year-end but not paid prior to year-end are recorded as losses payable on the balance sheets and amount to \$463,028 as of April 30, 2021. The Company had no losses payable as of April 30, 2020.

Effective October 15, 2020, the Company provides drone physical damage coverage for unmanned aircraft systems and ancillary equipment to the Parent. Limits provided are the insured values of aircraft and the insured values of ancillary equipment, which total \$84,180 as of April 30, 2021.

The Company also provides occurrence basis coverage for bodily injury for acts of terrorism, to SRP and affiliates. Effective October 15, 2017, per occurrence and aggregate limits are \$135,000,000, excess of a \$250,000 deductible, for certified and non-certified acts of terrorism.

The Company provides property terrorism coverage to SRP and its affiliates. Effective June 15, 2016, policy limits provided are \$650,000,000 per occurrence and in the aggregate, excess of a \$1,000,000 self-insured retention. These policies cover certified terrorism losses as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and subsequent extensions of TRIA. TRIA provides for a system of shared public and private compensation for insured losses resulting from acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of \$200 million.

The coverage provided by the Company is eligible under TRIA for 80% coinsurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premiums with an industry insured loss trigger of \$200 million. The Company retains both the deductible and its remaining 20% share of certified terrorism losses.

For the remaining losses that the Company is responsible for under TRIA, the Company procured property reinsurance coverage with a panel of reinsurers (the Reinsurers). Effective January 1, 2019, coverage provided is \$123,500,000 per claim and in the aggregate. An additional \$180,000,000 of reinsurance coverage is also provided under this reinsurance agreement for any excess losses not covered under TRIA. Effective January 1, 2020, coverage provided is \$130,000,000 per claim and in the aggregate. An additional \$200,000,000 of reinsurance coverage is also provided under this reinsurance agreement for any excess losses not covered under TRIA.

In addition, the Company procured bodily injury reinsurance coverage to fully cede the losses insured under the direct occurrence basis coverage for bodily injury for acts of terrorism. Effective October 15, 2019 and 2020, coverage provided is \$135,000,000 per claim and in the annual aggregate, excess of a \$250,000 deductible.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Additionally, failure of the Reinsurer to honor its obligation could result in significant losses to the Company. The Company continually evaluates the Reinsurer's financial condition. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

The Reinsurers are rated A or better by A.M. Best as of April 30, 2021 and 2020. The Company may choose in the future to re-evaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

Premiums written and ceded for the years ended April 30, 2021 and 2020, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	\$ 3,000,857	\$ 2,809,947	\$ 2,888,825	\$ 2,590,783
Ceded premiums	<u>(696,886)</u>	<u>(683,305)</u>	<u>(682,470)</u>	<u>(711,831)</u>
 Total	 <u>\$ 2,303,971</u>	 <u>\$ 2,126,642</u>	 <u>\$ 2,206,355</u>	 <u>\$ 1,878,952</u>

Activity in the liability for unpaid losses and loss adjustment expenses, is summarized as follows, for the years ended April 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 3,511,175	\$ 3,376,443
Less: reinsurance recoverable	<u>(258,393)</u>	<u>(146,656)</u>
	3,252,782	3,229,787
 Incurred related to:		
Current year	2,993,162	2,771,399
Prior years	<u>62,739</u>	<u>(28,162)</u>
Total incurred	3,055,901	2,743,237
 Paid related to:		
Current year	(2,190,563)	(1,831,215)
Prior years	<u>(901,250)</u>	<u>(889,027)</u>
Total paid	<u>(3,091,813)</u>	<u>(2,720,242)</u>
 Net balance at the end of the year	3,216,870	3,252,782
Add: reinsurance recoverable	<u>298,061</u>	<u>258,393</u>
 Balance, end of year	 <u>\$ 3,514,931</u>	 <u>\$ 3,511,175</u>

In 2021 incurred losses and loss adjustment expenses for prior years increased by \$62,739 due to unfavorable development on the Company's medical stop loss program. In 2020, incurred losses and loss adjustment expenses for prior years decreased by \$28,162 due to favorable development on the Company's medical stop loss program.

Incurred losses are reported net of the effect of reinsurance of \$39,668 and \$111,737 in 2021 and 2020, respectively. During 2021 and 2020, the Company received \$750,039 and \$442,566, respectively, in recoveries from reinsurers.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

The following tables present the Company's incurred and paid claims development by accident year. Accident years prior to 2021 for incurred and paid losses and the annual average percentage payout of incurred losses represent required supplementary information and are unaudited. The liability for unpaid losses and loss adjustment expenses is the amount estimated for claims that have been reported but not settled and incurred but not reported (IBNR) claims. The IBNR liability is calculated by utilizing various actuarial techniques. These include the Bornhuetter Ferguson approach, the loss development approach and the fixed loss approach. The time value of money is not taken into account for the purposes of calculating the liability for unpaid claims.

Cumulative claim frequency information is calculated on a per claim basis. Management determines loss frequency based at the loss occurrence level for claims which reach the Company's retention. The Company counts an insurance claim when either an indemnity or allocated adjustment expense amount has been paid, or at any period end, the Company recorded a case reserve. The expected development on reported claims is based on new information that becomes available through investigation.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

General Liability

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of April 30, 2021	
	For the Years Ended April 30, (Unaudited)										Total of Incurred-but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 116,969	\$ 350,906	\$ 350,906	\$ 350,906	\$ 247,750	\$ 221,083	\$ 199,042	\$ 179,625	\$ 141,667	\$ 129,667	\$ 129,667	-
2013		116,969	350,906	350,906	331,500	296,625	268,750	246,500	159,833	146,208	146,208	-
2014			116,969	350,906	393,167	350,542	313,458	284,375	186,875	168,625	168,625	-
2015				116,969	464,644	413,042	368,042	329,167	223,125	199,958	199,958	-
2016					177,231	462,516	421,270	375,667	259,417	232,250	232,250	-
2017						163,692	462,413	424,000	301,000	266,583	266,583	-
2018							152,000	444,623	352,792	308,375	308,375	-
2019								155,077	408,333	359,333	359,333	-
2020									450,917	411,542	411,542	-
2021										463,917	463,917	-
									Total	\$ 2,686,458		

The Company has not made payments on general liability claims in the previous ten years. The Company has \$176,542 in outstanding liabilities prior to 2012, net of reinsurance. As of April 30, 2021, the Company has \$2,863,000 in outstanding liabilities related to general liability coverage, net of reinsurance.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

Medical Stop Loss

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							As of April 30, 2021		
	For the Years Ended April 30, (Unaudited)							Total of Incurred-but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims	
	2015	2016	2017	2018	2019	2020	2021			
2015	\$ 130,775	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ -	2	
2016		1,340,839	1,378,369	1,356,051	1,355,789	1,355,789	1,355,789	-	3	
2017			1,370,651	1,212,103	1,211,577	1,211,577	1,211,577	-	5	
2018				1,600,000	1,094,096	1,084,538	1,084,538	-	5	
2019					475,136	1,062,650	1,085,661	-	10	
2020						2,320,482	2,712,127	15,188	7	
2021							2,529,245	338,681	1	
						Total	<u>\$ 10,478,937</u>			

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

Medical Stop Loss

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the Years Ended April 30,							
(Unaudited)							
Accident Year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
2015	\$ -	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
2016		1,000,000	1,346,711	1,356,051	1,355,789	1,355,789	1,355,789
2017			1,307,334	1,212,103	1,211,577	1,211,577	1,211,577
2018				1,000,000	1,081,882	1,084,538	1,084,538
2019					163,764	1,050,136	1,085,661
2020						1,831,215	2,696,939
2021							<u>2,190,563</u>
					Total		<u>10,125,067</u>
					Liabilities for claims and claim adjustment expenses, net of reinsurance		<u>\$ 353,870</u>

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid losses and loss adjustment expenses in the balance sheet as of April 30, 2021 is as follows:

Net outstanding liabilities	
General Liability	\$ 2,947,000
Medical Stop Loss	<u>353,870</u>
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	<u>3,300,870</u>
Reinsurance recoverable on unpaid claims	
Medical Stop Loss	<u>298,061</u>
Total gross liability for unpaid claims and claim adjustment expense	<u>\$ 3,598,931</u>

NOTE 6 - CAPITAL AND SURPLUS

The Company is required to maintain statutory capital and surplus requirements of an amount established and deemed appropriate by the Department. If not met, the Department has the authority to suspend or revoke the license of the Company to do business in the State of Arizona. The Department accepts capital determined in accordance with GAAP to meet the statutory capital and surplus requirements. The Company has been informed by the Department that its required statutory capital and surplus is \$700,000. The Company is in compliance with statutory capital and surplus requirements. All dividends must be approved by the Department before amounts are paid. There were no dividends declared or paid during 2021 and 2020. No capital was contributed by the Parent during 2021. During 2020 the Parent contributed capital of \$551,190.

For the years ended April 30, 2021 and 2020, there were no differences between the amounts reported in the accompanying financial statements and the Annual Statement filed with the Department.

(Continued)

SRP CAPTIVE RISK SOLUTIONS, LIMITED
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2021 and 2020

NOTE 7 - FEDERAL INCOME TAXES

The provision for the years ended April 30, 2021 and 2020 for income taxes differs from the amount of income tax expense determined by applying the statutory U.S. federal income tax rate to pre-tax net loss, as follows.

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Tax Rate</u>	<u>Amount</u>	<u>Tax Rate</u>
Income tax - statutory rate	\$ (178,307)	21.0%	\$ (145,032)	21.0%
Permanent differences:				
Net earned premiums	(463,335)	54.6%	(394,580)	57.1%
Incurred losses	641,739	(75.6%)	576,080	(83.4%)
Valuation allowance	(97)	0.0%	(36,468)	5.3%
Other	-	0.0%	-	0.0%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ -</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>

The tax effect of temporary differences, which result in a deferred tax asset as of April 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax asset:		
Net operating loss carryforward	\$ 33,373	\$ 33,470
Valuation allowance	<u>(33,373)</u>	<u>(33,470)</u>
	<u> </u>	<u> </u>
Total	<u>\$ -</u>	<u>\$ -</u>

As of April 30, 2021, the Company had a federal net operating loss carryforward of \$158,919, which begins to expire in 2030. The Company has recorded a valuation allowance against the net operating loss carryforward as management does not believe that the asset will be recovered.

NOTE 8 - SERVICE AGREEMENT

The Company has an agreement with Strategic Risk Solutions (West) Inc. (SRS), whereby SRS provides accounting, administrative and regulatory services.

SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Tempe Robins
Captive Manager, Strategic Risk Solutions**

**APPROVAL OF AUDITED FINANCIALS
AUGUST 23, 2021**



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APPROVAL OF AUDITED FINANCIALS

Letter to the Board of Directors – June 28, 2021

- **UNQUALIFIED AUDIT OPINION**

- Reasonable assurance that financials are free of material misstatements
- Considers internal control structure
- Communicating significant matters relating to the audit

- **AUDIT FINDINGS**

- No disagreements with management or difficulties encountered during audit
- No deficiencies or weaknesses in internal control
- No identified corrected or uncorrected misstatements
- No fraud or illegal acts to report
- No audit findings or issues

APPROVAL OF AUDITED FINANCIALS

	Year Ended 4/30/21	Year Ended 4/30/20	% Change over prior year
Total Assets	\$14,134,402	\$14,343,181	-1.46%
Total Liabilities	\$6,057,725	\$5,417,421	+11.82%
Equity	\$8,076,677	\$8,925,760	-9.51%
	Year Ended 4/30/21	Year Ended 4/30/20	% Change over prior year
Income	\$2,206,355	\$1,878,952	+17.42%
Expenses	(\$3,148,043)	(\$2,831,373)	+11.18%
Investment Income	\$92,605	\$261,791	-64.63%
Net Income (Loss)	(\$849,083)	(\$690,630)	-22.94%

APPROVAL OF AUDITED FINANCIALS

Request for Approval:

Accept the Audited Financial Statements for the fiscal year ending April 30, 2021, as issued by Crowe LLP.



SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Tempe Robins
Captive Manager, Strategic Risk Solutions**

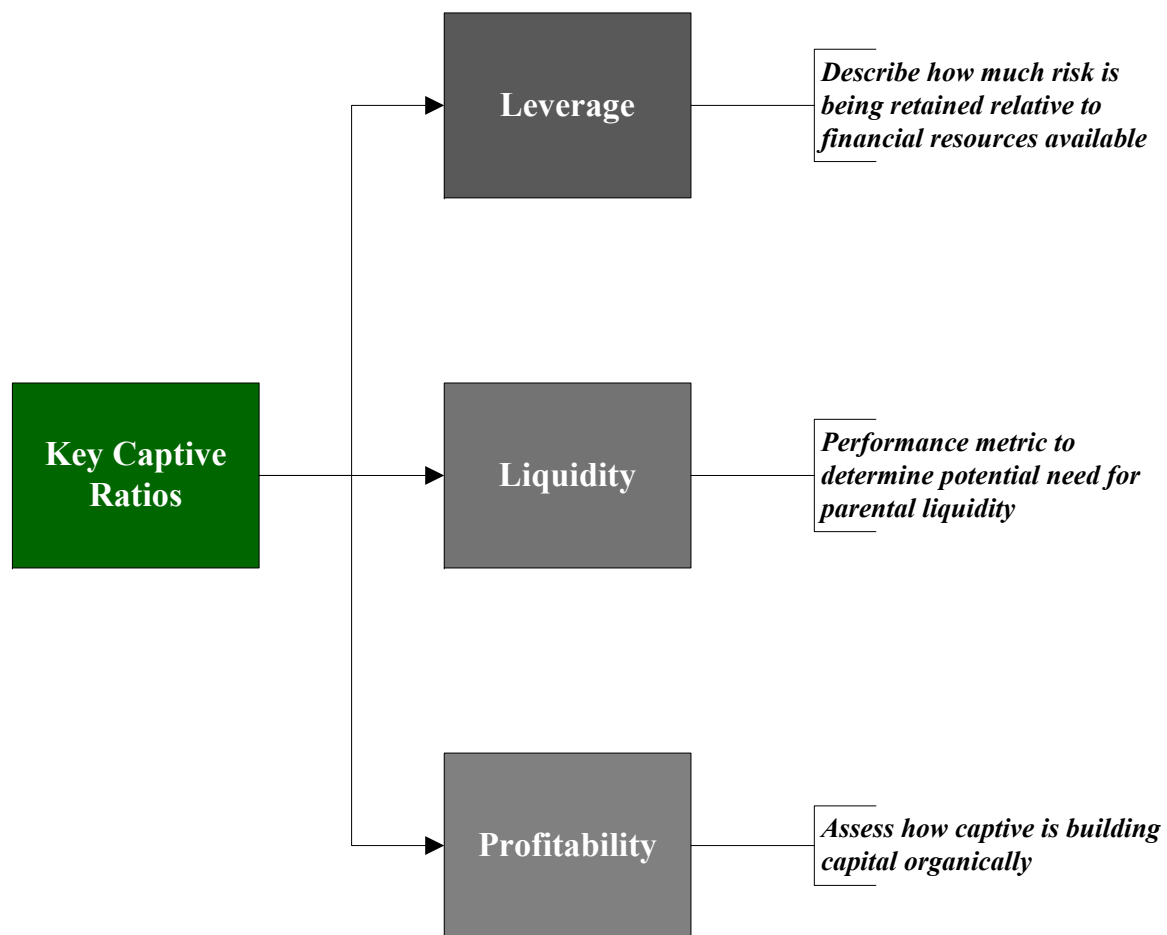
**SRPCRS AUDITED FINANCIALS AND MANAGEMENT REPORT
AUGUST 23, 2021**



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SRPCRS CAPTIVE RATIO REPORT

Captive Ratio Report



SRPCRS LEVERAGE RATIOS

LEVERAGE RATIOS	Status	2019	2020	2021
Net Written Premium: Net Equity (GAC Standard: 3:1 to 5:1)	Within Standard	0.194	0.238	0.285
Gross Reserves: Net Equity (GAC Standard: 3:1 to 5:1)	Within Standard	0.372	0.393	0.435
Net Risk per occurrence: Net Equity (GAC Standard: <50%)	Within Standard	22.06%	22.41%	24.76%

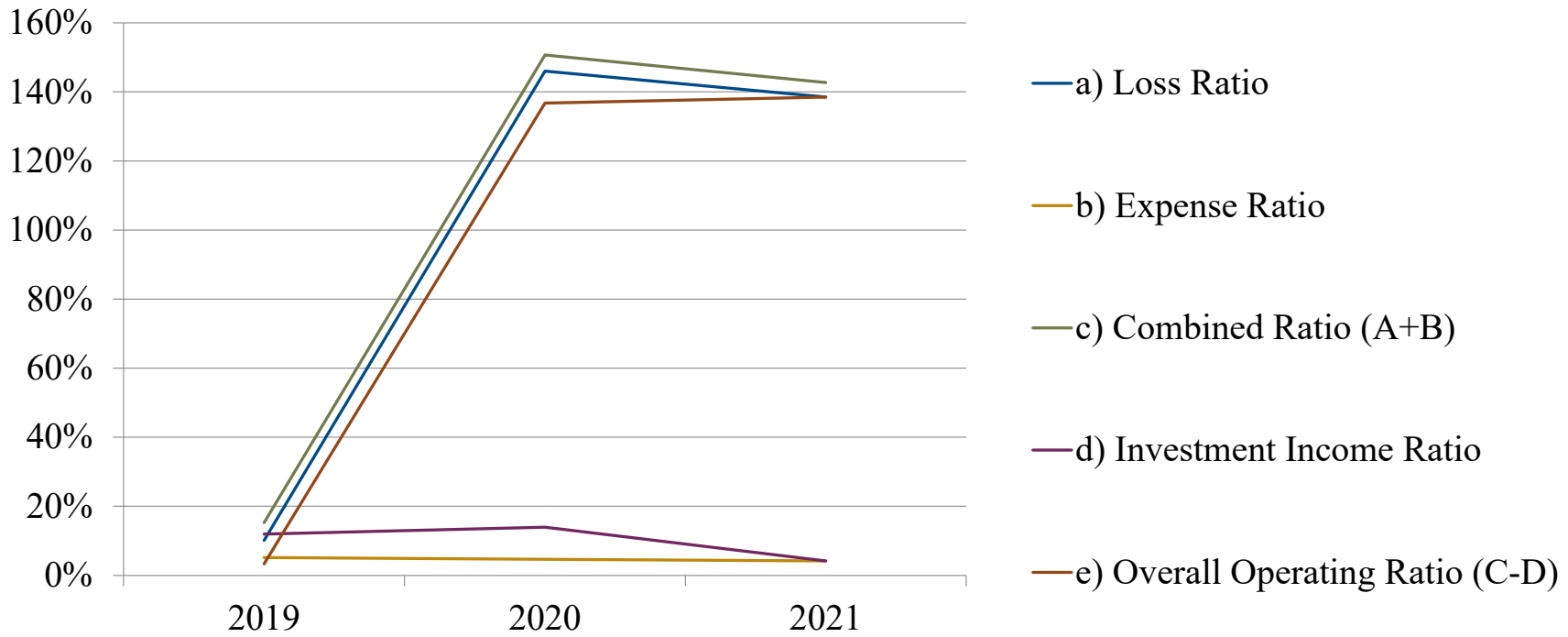
SRPCRS LIQUIDITY RATIOS

LIQUIDITY RATIOS	Status	2019	2020	2021
Assets: Liability (GAC Standard: >125%)	Within Standard	276.22%	264.76%	233.33%
Gross Reserves: Liquid Assets (GAC Standard: <300%)	Within Standard	49.68%	62.63%	46.64%

SRPCRS PROFITABILITY RATIOS

PROFITABILITY RATIOS	Status	2019	2020	2021
a) Loss Ratio				
Incurred Loss: Net Earned Premium (GAC Standard: 45%<95%)	Outside Standard	10.11%	146.00%	138.50%
b) Expense Ratio				
Captive Expense: Net Earned Premium (GAC Standard: <25%)	Within Standard	5.17%	4.69%	4.18%
c) Combined Ratio (A+B) (GAC Standard: <100%)	Outside Standard	15.29%	150.69%	142.68%
d) Investment Income Ratio				
Net Investment Income: Net Earned Premium (GAC Standard: 3%<8%)	Within Standard	11.96%	13.93%	4.20%
e) Overall Operating Ratio (C-D) (GAC Standard: <100%)	Outside Standard	3.33%	136.76%	138.48%

SRPCRS PROFITABILITY RATIOS GRAPH



SRPCRS UNDERWRITING & OPERATING RESULTS

CUMULATIVE UNDERWRITING & OPERATING RESULTS	2005 – 2021
Premiums Earned	\$ 18,247,453
Losses Paid and Reserved	\$ 14,414,372
Investment Income	\$ 1,426,707
3 Year Average Operating Expenses	\$ 90,538

SRPCRS FINANCIAL RESULTS & FINDINGS

Findings

- SRPCRS is financially sound compared to captive industry ratio standards.
- SRPCRS' capital position is strong relative to risk being underwritten.
- Profitability ratios improved in 2021. However, MSL losses remain active and have kept the loss ratio high. At 4/30/21 there were seven active claims on the 2020 policy and one active claim on the 2021 policy. The 2020 policy year loss activity is slightly higher than the prior year with paid claims totaling \$3,333,091. However, the company is expecting to receive \$741,789 from the reinsurers.
- Investment income ratios decreased in 2021 due to maturities of fixed income investments. Funds received at maturity are being held in a money market account to balance liquidity needs with low interest rates available in the market. Investment income helps support the underwriting result, reducing net losses.

SRPCRS REGULATORY COMPLIANCE REPORT

Compliance Item	Due Date	Status
Arizona Annual Filing <ul style="list-style-type: none"> - Property and Casualty Annual Report & Actuarial Opinion - Management’s Discussion and Analysis - Annual License Fee \$5,500 	July 31	In compliance
Audited Financial Statements <ul style="list-style-type: none"> - Auditor Qualification Letter - Auditor Report on Internal Controls 	October 31	In compliance
Corporate Documentation <ul style="list-style-type: none"> - Annual Conflict of Interest Statements, Biographical Affidavits - Annual Board of Directors Meeting - Changes in Directors/Officers reported to AZDIFI 	Annually, and as changes are made	In compliance
Underwriting Activities <ul style="list-style-type: none"> - Changes in business plan require approval by AZDIFI 	As required	In compliance
Minimum Capital & Surplus Requirement <ul style="list-style-type: none"> - Unimpaired capital/surplus of \$700,000 	Ongoing	In compliance



SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Jeff Wright
Director, Financial Reporting**

**INTERIM FINANCIAL RESULTS
AUGUST 23, 2021**



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INTERIM FINANCIAL RESULTS

	Period Ended 07/31/2021	Period Ended 04/30/2021	Three Month Change
Total Assets	\$12,348,842	\$14,134,402	(\$1,785,560)
Total Liabilities	\$4,768,171	\$6,057,724	\$1,289,553
Equity	\$7,580,671	\$8,076,678	(\$496,007)
	Three Months Ended 07/31/2021	Three Months Ended 07/31/2020	Year over Year Change
Income	\$583,535	\$539,632	\$43,903
Expenses	(\$1,096,306)	(\$611,252)	(\$485,054)
Investment Income	\$16,764	\$29,923	(\$13,159)
Net Income (Loss)	(\$496,007)	(\$41,697)	(\$454,310)

INTERIM FINANCIAL RESULTS

	Actual 07/31/2021	Budget 07/31/2021	Variance
Premiums Earned	\$583,535	\$591,279	(\$7,744)
Income from Investments	\$16,764	\$12,500	\$4,264
Total Income	\$600,299	\$603,779	(\$3,480)
License Fee	\$5,500	\$5,500	-
Directors & Meeting Expense	-	-	-
Management Fee	\$13,750	\$13,750	-
Audit Fee	\$4,875	\$4,875	-
Actuarial Fee	\$1,200	\$1,250	\$50
Bank Fee	\$624	\$625	\$1
Conferences & Memberships	-	\$2,750	\$2,750
Paid Losses & Reserves	\$1,070,357	\$597,500	(\$472,857)
Total Expenses	\$1,096,306	\$626,250	(\$470,056)
Net Income (Loss)	(\$496,007)	(\$22,471)	(\$473,536)



SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Marcia Philpott
Manager, Insurance Services**

**RENEWAL OF EXCESS LIABILITY POLICY FOR SRP
AUGUST 23, 2021**



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EXCESS LIABILITY POLICY COVERAGE

- Coverage for third party bodily injury, property damage, and wildfire exposure
- Benefits:
 - Keeps premiums within an SRP entity
 - Provides flexibility to maintain limits while optimizing costs
- SRPCRS provides coverage to SRP
- Limit of Insurance = \$2 M
- Self-insured Retention = \$1 M

EXCESS LIABILITY POLICY RENEWAL PROPOSAL

Coverage	Existing Policy	Expected Renewal
Policy Period	10/15/2020 –10/15/2021	10/15/2021 – 10/15/2022
Limit of Insurance	\$ 2,000,000	\$ 2,000,000
Self-Insured Retention	\$ 1,000,000	\$ 1,000,000
Premium for SRP	\$ 522,764	\$ 653,455 *

* Based on 25% budget increase

EXCESS LIABILITY POLICY RENEWAL

Request for Approval:

Authorize SRP Captive Risk Solutions to renew the
Excess Liability Policy provided to SRP
effective October 15, 2021.



SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Marcia Philpott
Manager, Insurance Services**

**LIABILITY TERRORISM WRAP RENEWAL
AUGUST 23, 2021**



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LIABILITY TERRORISM WRAP REINSURANCE

- Coverage for certified Acts of Terrorism
- Benefits:
 - Provides enhanced coverage not available through commercial carriers
 - Keeps premiums within an SRP entity
- Enactment of the Terrorism Risk and Insurance Act (TRIA) of 2002 required carriers to provide coverage
- SRPCRS provides coverage to SRP
- Reinsurance TRIA Liability Terrorism Wrap option procured through Lloyds of London

LIABILITY TERRORISM REINSURANCE PROGRAM

COVERAGE

SRPCRS
 \$135M
 Reinsurance
 through
 Lloyds of London

SRP
 \$250,000

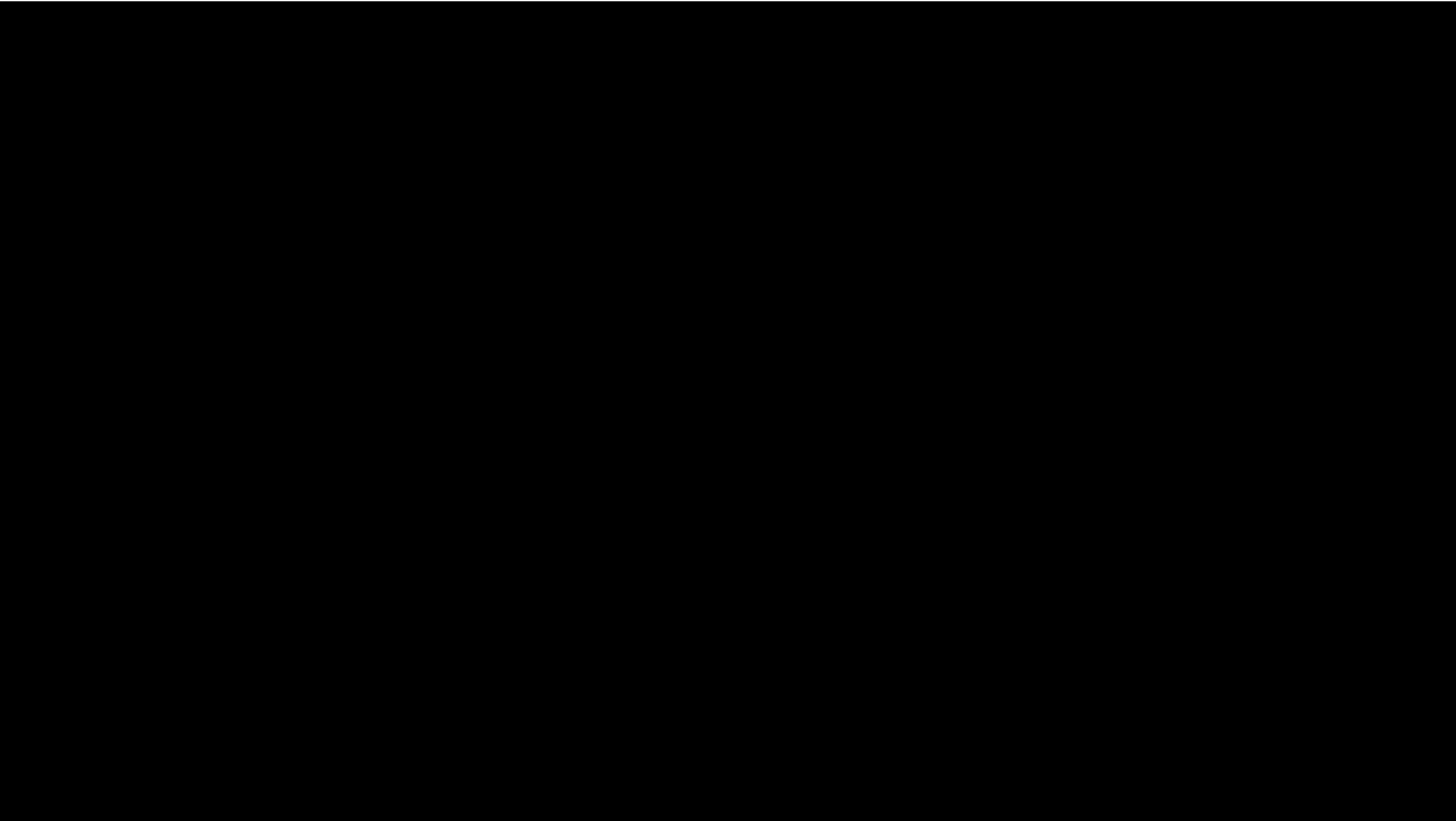
Coverage	Existing Program 10/15/2020 –10/15/2021	Expected Renewal 10/15/2021 – 10/15/2022
Reinsurance Premium	\$ 60,000	\$ 67,500 *
Premium for SRP	\$ 80,498	\$ 90,560 *

* Based on 12.5% budget increase

LIABILITY TERRORISM WRAP REINSURANCE RENEWAL

Request for Approval:

Authorize SRP Captive Risk Solutions to renew Liability Terrorism Wrap Reinsurance provided to SRP and reinsurance through Lloyds of London.



SRP CAPTIVE RISK SOLUTIONS, LIMITED BOARD OF DIRECTORS MEETING

**Marcia Philpott
Manager, Insurance Services**

**UAS PHYSICAL DAMAGE INSURANCE RENEWAL
AUGUST 23, 2021**



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SRP UAS PHYSICAL DAMAGE INSURANCE COVERAGE

- Coverage for property damage to SRP owned Unmanned Aircraft Systems (drones)
- Benefits:
 - Keeps premiums within an SRP entity
 - Provides flexibility to maintain limits while optimizing costs
- SRP owns 8 UAS/drones including ancillary equipment such as batteries, cameras, and mounting brackets
 - Operated through SRP's Flight Services
- SRPCRS provides coverage to SRP
- Liability coverage remains with a commercial insurance company

UAS PHYSICAL DAMAGE INSURANCE RENEWAL PROPOSAL

Coverage	Existing Policy	Expected Renewal
Policy Period	10/15/2020 – 10/15/2021	10/15/2021 – 10/15/2022
Replacement Cost	5% in motion	5% in motion
Insured	SRP	SRP
Agreed Value	\$ 88,844 (7 UAS/drone + equipment)	\$150,145 (8 UAS/drone + equipment)
Premium for SRP	\$ 7,467	\$14,265

UAS PHYSICAL DAMAGE INSURANCE RENEWAL

Request for Approval:

Authorize SRP Captive Risk Solutions to renew the UAS Physical Damage Insurance provided to SRP effective October 15, 2021.

