

CAWCD INSURANCE COMPANY, INC.
Phoenix, Arizona

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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Independent Auditor's Report

The Board of Directors
CAWCD Insurance Company, Inc.
Phoenix, Arizona

We have audited the accompanying balance sheet of CAWCD Insurance Company, Inc. (the Company), a component unit of the Central Arizona Water Conservation District, as of December 31, 2007, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CAWCD Insurance Company, Inc. as of and for the year ended December 31, 2006, were audited by other auditors whose report, dated February 27, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of CAWCD Insurance Company, Inc. as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Phoenix, Arizona
April 9, 2008

**CAWCD INSURANCE COMPANY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006**

Introduction

The following is management's discussion and analysis for the financial performance of the CAWCD Insurance Company, Inc. (the Company) for the years ended December 31, 2007 and 2006.

The Company is organized and operated exclusively to support, benefit or carry out some or all of the purposes of Central Arizona Water Conservation District ("the Parent") and its other affiliated organizations ("Affiliates"). In furtherance of such purposes, the Company provides or will enter into arrangements to insure various liability risks of the Parent and Affiliates.

The financial statements of the Company consist of the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The Statements of Net Assets presents information on the Company's assets and liabilities, with the difference between the two reported as net assets. The Statements of Revenues, Expenses and Changes in Net Assets presents information showing how the Company's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows which is shown by the Statements of Cash Flows.

Statements of Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets:			
Cash and cash equivalents	\$ 2,210,434	\$ 2,178,222	\$ 1,891,948
Escrow deposit	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total current assets	<u>\$ 2,220,434</u>	<u>\$ 2,188,222</u>	<u>\$ 1,901,948</u>

The increase in current assets primarily results from cash received from the Parent for insurance premiums and from increase in investment income earned from the Money Market Mutual Fund and Time Certificate of Deposit. These increases were offset by claim payments and operating expense payments.

Statements of Net Assets (Continued)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Liabilities:			
Hearing claims payable	\$ -	\$ 275,000	\$ 669,200
Due to Parent	337,103	250,109	-
Reserve for losses and loss expense	1,028,018	619,263	629,424
Unearned premiums	<u>3,630</u>	<u>1,810</u>	<u>1,826</u>
Total insurance liabilities	1,368,751	1,146,182	1,300,450
Accrued expenses	<u>57,509</u>	<u>47,673</u>	<u>48,064</u>
Total liabilities	<u>\$ 1,426,260</u>	<u>\$ 1,193,855</u>	<u>\$ 1,348,514</u>

CAWCD INSURANCE COMPANY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Management of the Company is committed to ensuring that reserves for reported and incurred but not reported losses are adequate. To accomplish this commitment, detailed loss reports are used to develop a conservative, actuarially sound level of reserves. Reserves for 2007 increased primarily due to an additional year of loss development and an increase in the provision for losses and loss adjustment expenses for prior year claims because of higher than anticipated losses for the Company's workers' compensation and property risks. Reserves for 2006 decreased primarily due to a change in the estimated severity of certain general liability claims.

During 2005, the Company received \$669,200 in cash from its parent to pay certain hearing loss claims on behalf of the Parent. The hearing loss claims are payable to employees of the Parent that the Parent has determined have incurred a hearing loss. Accordingly, the Parent has estimated its claim costs and is providing funds for payment of these claims. The cash is for the sole use of paying such claims. From 2006 to 2007, the Company paid out \$332,097 in hearing loss claims. All claims have been closed. The Company has recorded a Due to Parent in the amount of \$337,103 at December 31, 2007, that represents cash advanced to the Company that is in excess of all claims paid.

<u>Revenue</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Premiums written	\$ 1,420,972	\$ 1,475,246	\$ 1,408,378
Premiums to third party insurers on behalf of Parent	<u>760,461</u>	<u>835,079</u>	<u>739,979</u>
Net premiums written	660,511	640,167	668,399
Change in unearned premium	<u>(1,820)</u>	<u>16</u>	<u>(287)</u>
Net premiums earned	658,691	640,183	668,112
Investment income	<u>111,648</u>	<u>104,397</u>	<u>31,078</u>
Total revenues	<u>\$ 770,339</u>	<u>\$ 744,580</u>	<u>\$ 699,190</u>

The Company agrees to pay insurance premiums to third party insurers on behalf of the Parent to the extent the Company receives such premiums from its Parent. The Company's insurance premiums are estimated to provide for the projected ultimate losses for each policy year of the various liability risks of the Parent and its affiliates, premiums the Company pays to third party insurers on behalf of the Parent and operating expenses. The Company's premiums written for 2007, were decreased from 2006, because the Parent's premiums to third party insurers were lower for property and public official liability. The Company's premiums written for 2006, were increased from 2005 because the Parent's premiums to third-party insurers were higher for workers compensation and property.

**CAWCD INSURANCE COMPANY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006**

A higher investment balance and interest rate resulted in an increase in investment income.

<u>Expenses</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Losses and loss expense	\$ 843,831	\$ 142,505	\$ 443,671
Operating expenses	<u>126,701</u>	<u>161,142</u>	<u>137,114</u>
Total expenses	<u>\$ 970,532</u>	<u>\$ 303,647</u>	<u>\$ 580,785</u>

The increase in total losses and loss expense for 2007, is due to higher than anticipated losses for prior year claims related to the Company's workers' compensation and property risks that are recorded in the current year. The decrease in the 2006 losses and loss expenses compared to 2005, resulted from a change in the estimated severity of certain general liability claims.

<u>Net Assets</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net assets at beginning of year:			
Restricted (minimum capital required)	\$ 250,000	\$ 250,000	\$ 250,000
Unrestricted (additional paid-in capital plus retained earnings)	744,367	303,434	185,029
Change in net assets	<u>(200,193)</u>	<u>440,933</u>	<u>118,405</u>
	<u>\$ 794,174</u>	<u>\$ 994,367</u>	<u>\$ 553,434</u>
Net assets at end of year:			
Restricted (minimum capital required)	\$ 250,000	\$ 250,000	\$ 250,000
Unrestricted (additional paid-in capital plus retained earnings)	<u>544,174</u>	<u>744,367</u>	<u>303,434</u>
	<u>\$ 794,174</u>	<u>\$ 994,367</u>	<u>\$ 553,434</u>

The combination of the decrease in premium written and increase in investment income were smaller than the increase in total expenses for 2007, when compared to 2006, resulting in a greater decrease in net assets for 2007, than the prior year. The combination of the decrease in premiums written and increase in investment income were greater than the decrease in total expenses for 2006, when compared to 2005, resulting in a greater increase in net assets for 2006 than the prior year.

Requests for Financial Information

This financial report is designed to provide a general overview of the Company's finances. Questions concerning any of the information provided in this report or requests for additional financial information, contact Theodore C. Cooke, President at:

Post Office Box 43020
Phoenix, Arizona 85080-3020
623-869-2167
tcooke@cap-az.com

CAWCD INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,210,434	\$ 2,178,222
Escrow deposit	<u>10,000</u>	<u>10,000</u>
 TOTAL ASSETS	 <u><u>\$ 2,220,434</u></u>	 <u><u>\$ 2,188,222</u></u>

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accrued expenses	\$ 57,509	\$ 47,673
Hearing claims payable	-	275,000
Due to Parent	337,103	250,109
Reserve for losses and loss expense:		
Reported claims	567,281	123,263
Claims incurred but not reported	460,737	496,000
Unearned premiums	<u>3,630</u>	<u>1,810</u>
Total current liabilities	<u>1,426,260</u>	<u>1,193,855</u>
 NET ASSETS		
Restricted	250,000	250,000
Unrestricted	<u>544,174</u>	<u>744,367</u>
Total Net Assets	<u>794,174</u>	<u>994,367</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 2,220,434</u></u>	 <u><u>\$ 2,188,222</u></u>

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

CAWCD INSURANCE COMPANY, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Premiums earned	\$ 658,691	\$ 640,183
OPERATING EXPENSES		
Losses and loss expense	843,831	142,505
Operating expenses	<u>126,701</u>	<u>161,142</u>
Total costs and operating expenses	<u>970,532</u>	<u>303,647</u>
Operating income (loss)	(311,841)	336,536
OTHER INCOME		
Investment income	<u>111,648</u>	<u>104,397</u>
CHANGE IN NET ASSETS	(200,193)	440,933
NET ASSETS, BEGINNING OF YEAR	<u>994,367</u>	<u>553,434</u>
NET ASSETS, END OF YEAR	<u>\$ 794,174</u>	<u>\$ 994,367</u>

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

CAWCD INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums collected	\$ 660,511	\$ 640,167
Losses and loss expenses paid	(435,076)	(152,666)
Hearing claims payments	(188,006)	(144,091)
Other cash payments	<u>(116,865)</u>	<u>(161,533)</u>
Net cash provided by (used in) operating activities	(79,436)	181,877
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest income received	<u>111,648</u>	<u>104,397</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,212	286,274
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,178,222</u>	<u>1,891,948</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,210,434</u>	<u>\$ 2,178,222</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (311,841)	\$ 336,536
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Accrued expenses	9,836	(391)
Hearing claims payable	(275,000)	(394,200)
Due to parent	86,994	250,109
Reserve for losses and loss expense	408,755	(10,161)
Unearned premiums	<u>1,820</u>	<u>(16)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (79,436)</u>	<u>\$ 181,877</u>

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

**CAWCD INSURANCE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

CAWCD Insurance Company, Inc. (the Company), a component unit of the Central Arizona Water Conservation District (“the Parent”), is organized and operated exclusively to support, benefit or carry out some or all of the purposes of the Parent and its other affiliated organizations (“Affiliates”). In furtherance of such purposes, the Company provides or will enter into arrangements to insure various liability risks of the Parent and Affiliates.

The Company was incorporated under the laws of the State of Hawaii and is formed to be a nonprofit captive insurance company pursuant to Article 19 of Chapter 431 of the Hawaii Revised Statutes. The Company received its Certificate of Authority from the Hawaii Insurance Division on December 18, 2003. The Certificate of Authority enables the Company to operate as a captive insurance company in the State of Hawaii. The Parent is the sole member of the Company. The Company was capitalized with \$350,000 on December 18, 2003, however operations commenced on January 1, 2004.

The Company insures the following risks for the January 1, 2004 to January 1, 2008 policy years:

<u>Type of Risk</u>	<u>Coverage Limits</u>
Workers compensation	\$2,000,000 per occurrence, no annual aggregate except \$2,000,000 annual aggregate for disease only
Public officials liability, including employment practices liability	\$2,000,000 per claim, no annual aggregate on a claims-made basis
Property	\$2,000,000 per occurrence, no annual aggregate
Automobile liability	\$2,000,000 per occurrence, no annual aggregate
General liability	\$2,000,000 per occurrence, annual aggregate
Fiduciary	\$2,000,000 annual aggregate limit on a claims-made basis
Police professional liability	\$2,000,000 per claim, \$2,000,000 annual aggregate on a claims-made basis
Non-owned aircraft liability	\$2,000,000 per occurrence, no annual aggregate

CAWCD INSURANCE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accounting policies of the Company conform to generally accepted accounting principles as applicable to an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is utilized, whereby revenues are recorded when they are earned, and expenses are recorded when the liability is incurred.

The Company has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

The operating revenues and expenses of the Company generally result from providing insurance coverage to the Parent and Affiliates in connection with the Company's ongoing operations.

Cash and Cash Equivalents

The Company considers all short-term investments (maturities of 90 days or less when originally acquired) to be cash equivalents. Escrow deposit relates to cash held in escrow to pay claims by the Company's claim administrator as of December 31, 2007 and 2006.

At December 31, 2007 and 2006, the Company's reported cash deposits were \$2,210,434 and \$2,178,222, respectively. The bank balances related to these deposits totaled \$2,243,871 and \$2,279,387, at December 31, 2007 and 2006, respectively. Bank balances of \$2,143,871 and \$2,179,387 at December 31, 2007 and 2006, respectively, are uninsured and uncollateralized and are thus exposed to custodial credit risk. The Company does not have any formal policy with respect to custodial credit risk. Cash is a legally authorized investment pursuant to the Hawaii Insurance Code.

Reserve for Losses and Loss Expenses

The reserve for losses and loss expenses includes the unpaid accumulation of case estimates for losses reported; estimates for losses incurred but not reported, and estimates of expenses for investigating and adjusting incurred losses. The reserve for losses and loss adjustment expenses is based upon the aggregated loss experience of the Parent and its Affiliates and is estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency. Management believes the reserve for losses and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

CAWCD INSURANCE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hearing Claims Payable

The Company has received \$669,200 in cash from its Parent to pay certain hearing loss claims on behalf of the Parent. The hearing loss claims are payable to employees of the Parent that the Parent has determined have incurred a hearing loss. Accordingly, the Parent has estimated its claim costs and is providing funds for payment of these claims. The cash was for the sole use of paying such claims. As of December 31, 2007, the Company has paid out \$332,097 in hearing losses. As of December 31, 2007, all claims have been settled and closed. The Parent will further indemnify the Company for all claim costs in excess of \$669,200. As a result, the Company has recorded the difference as a payable to its Parent in the amount of \$337,103.

Premium Income

The Company derives all of its premium income from the Parent and Affiliates. Premiums are earned on a pro-rata basis over the term of the related policies. Premiums related to the unexpired terms of the policies are deferred.

The Company agrees to pay the premiums for the Parent's insurance policies covering workers compensation, public officials and property risks in excess of \$2,000,000 to the extent the Company receives such premiums from its Parent. For the policy periods January 1, 2006 to January 1, 2008, the Company's premium revenue consisted of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 1,420,972	\$ 1,413,228	\$ 1,475,246	\$ 1,475,067
Premiums to third party insurers on behalf of Parent	<u>(760,461)</u>	<u>(754,537)</u>	<u>(835,079)</u>	<u>(834,884)</u>
Net premiums	<u>\$ 660,511</u>	<u>\$ 658,691</u>	<u>\$ 640,167</u>	<u>\$ 640,183</u>

Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of those financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future, as more information becomes known which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

**CAWCD INSURANCE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 2 – RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses at December 31:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 619,263	\$ 629,424
Add provision for losses and loss adjustment expenses for claims occurring during:		
Current year	611,000	397,000
Prior years	<u>232,831</u>	<u>(254,495)</u>
	<u>843,831</u>	<u>142,505</u>
Deduct losses and loss adjustment expense payments for claims occurring during:		
Current year	260,749	60,969
Prior years	<u>174,327</u>	<u>91,697</u>
	<u>435,076</u>	<u>152,666</u>
Balance, end of year	<u>\$ 1,028,018</u>	<u>\$ 619,263</u>

The provision for losses and loss expenses increased from the prior year because of higher than expected losses for prior year claims related to the Company's workers' compensation and property risks.

NOTE 3 – INCOME TAXES

Pursuant to the Company's status under Section 115 of the Internal Revenue Code, the increase in net assets are exempt from federal income taxes. Therefore, the accompanying financial statements do not include a provision for federal and state corporate income taxes.

NOTE 4 – MINIMUM CAPITAL AND SURPLUS

The Hawaii Insurance Division has established certain minimum capital and surplus requirements for the Company. A minimum amount of \$250,000 in capital and surplus must be maintained at all times. As of December 31, 2007, the Company was in compliance with the minimum capital and surplus requirements of the State of Hawaii.

This information is an integral part of the accompanying financial statements.