

**CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA
WATER CONSERVATION DISTRICT)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of CAWCD Insurance Company, Inc. (the Company), a component unit of the Central Arizona Water Conservation District (CAWCD), as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAWCD Insurance Company, Inc. as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical content. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing 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.



CliftonLarsonAllen LLP

Phoenix, Arizona
April 17, 2018

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Introduction

The following is management's discussion and analysis of the financial performance of the CAWCD Insurance Company, Inc. (the Company) for the years ended December 31, 2017 and 2016.

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 (CAWCD) and its other affiliated departments (Affiliates). In furtherance of such purposes, the Company provides or will enter into arrangements to insure various liability risks of CAWCD and its Affiliates.

The financial statements of the Company consist of the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. The Statements of Net Position present information on the Company's assets, liabilities and net position. The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Company's net position changed during the year. All changes in net position 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 Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Cash, Cash Equivalents, and Certificate of Deposit	\$ 7,439,369	\$ 8,182,706	\$ 7,389,304
Escrow Deposit	10,000	10,000	10,000
Total Assets	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>	<u>\$ 7,399,304</u>
Liabilities:			
Accrued Expenses	\$ 68,960	\$ 67,266	\$ 64,934
Premium Insurance Payable	-	37,659	85,590
Reserve for Losses, Loss Adjustment, and Benefit Expenses	<u>3,224,198</u>	<u>3,920,021</u>	<u>3,732,117</u>
Total Liabilities	3,293,158	4,024,946	3,882,641
Net Position	<u>4,156,211</u>	<u>4,167,760</u>	<u>3,516,663</u>
Total Liabilities and Net Position	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>	<u>\$ 7,399,304</u>

In 2017, the decrease in total assets is primarily attributed to a \$1,000,000 settlement of a 2012 policy year claim.

In 2016, the increase in total assets is due primarily to the timing of losses paid, loss adjustment and benefit expenses.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

In 2017, reserves for losses, loss adjustment and benefit expenses decreased by \$695,823, or 18% as a result of the settled, largest claim outstanding for the 2012 policy year.

In 2016, reserves for losses, loss adjustment and benefit expenses increased by \$187,904, or 5% as a result of unfavorable loss development and actual loss experience related to the 2012 policy year.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue			
Premiums Written	\$ 9,847,404	\$ 9,316,719	\$ 8,624,935
Less Premiums to Third-Party Insurers	<u>999,534</u>	<u>925,455</u>	<u>534,394</u>
Premiums Written, Net	<u>\$ 8,847,870</u>	<u>\$ 8,391,264</u>	<u>\$ 8,090,541</u>
Premiums Earned, Net	\$ 8,847,870	\$ 8,391,264	\$ 8,090,541
Investment Income	<u>7,274</u>	<u>7,032</u>	<u>6,877</u>
Total Revenue	<u>\$ 8,855,144</u>	<u>\$ 8,398,296</u>	<u>\$ 8,097,418</u>

The Company pays insurance premiums to third-party insurers on behalf of CAWCD. The Company's insurance premiums are estimated to provide for the projected ultimate losses for each policy year of the various liability risks of CAWCD and its affiliates, premiums the Company pays to third-party insurers and operating expenses.

In 2017 and 2016, the Company's written premiums increased by \$530,685 or 6% and \$691,784 or 8%, respectively, mainly due to premiums for the health benefit program.

In 2017 and 2016, investment income increased by \$242 or 3%, and \$155 or 2%, respectively, due to slightly higher interest rates.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Expenses			
Losses, Loss Adjustment, and Benefit Expenses	\$ 8,667,404	\$ 7,551,749	\$ 8,769,990
Other Underwriting Expenses	32,584	27,536	28,689
Operating Expenses	<u>166,705</u>	<u>167,914</u>	<u>172,784</u>
Total Expenses	<u>\$ 8,866,693</u>	<u>\$ 7,747,199</u>	<u>\$ 8,971,463</u>

The increase in losses, loss adjustment and benefit expenses for 2017 is primarily attributed to a claim settlement payment in the 2012 policy year, including claims paid for the health benefits program, and unfavorable loss development during the year.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

The decrease in losses, loss adjustment and benefit expenses for 2016 is attributed to lower current year paid losses for the health benefit program than in prior years, including a material actual loss from which proceeds were paid out since the 2012 policy year.

Net Position	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Position:			
Restricted	\$ 2,250,000	\$ 2,250,000	\$ 2,250,000
Unrestricted	1,906,211	1,917,760	1,266,663
	<u>\$ 4,156,211</u>	<u>\$ 4,167,760</u>	<u>\$ 3,516,663</u>
Change in Net Position:			
Net Position, Beginning of Year	\$ 4,167,760	\$ 3,516,663	\$ 4,390,708
Change in Net Position	<u>(11,549)</u>	<u>651,097</u>	<u>(874,045)</u>
Net Position, End of Year	<u>\$ 4,156,211</u>	<u>\$ 4,167,760</u>	<u>\$ 3,516,663</u>

The decrease in net position for 2017 is primarily due to the increase in losses, loss adjustment, and benefit expenses, and the increase in premiums written.

The increase in net position for 2016 is primarily due to the decrease in losses, loss adjustment, and benefit expenses offset by premiums written.

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:

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CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 5,044,452	\$ 5,787,789
Certificate of Deposit	2,394,917	2,394,917
Escrow Deposit	<u>10,000</u>	<u>10,000</u>
Total Assets	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accrued Expenses	\$ 68,960	\$ 67,266
Premium Insurance Payable	-	37,659
Reserve for Losses, Loss Adjustment, and Benefit Expenses:		
Reported Claims	583,883	1,573,607
Claims Incurred but not Reported	<u>2,640,315</u>	<u>2,346,414</u>
Total Liabilities	<u>3,293,158</u>	<u>4,024,946</u>
NET POSITION		
Restricted	2,250,000	2,250,000
Unrestricted	<u>1,906,211</u>	<u>1,917,760</u>
Total Net Position	<u>4,156,211</u>	<u>4,167,760</u>
Total Liabilities and Net Position	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>

See accompanying Notes to Financial Statements.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Premiums Earned, Net	\$ 8,847,870	\$ 8,391,264
OPERATING EXPENSES		
Losses, Loss Adjustment, and Benefit Expenses	8,667,404	7,551,749
Other Underwriting Expenses	32,584	27,536
Operating Expenses	166,705	167,914
Total Operating Expenses	8,866,693	7,747,199
Operating Income (Loss)	(18,823)	644,065
NON-OPERATING ACTIVITY		
Investment Income	7,274	7,032
CHANGE IN NET POSITION	(11,549)	651,097
Net Position - Beginning of Year	4,167,760	3,516,663
NET POSITION - END OF YEAR	\$ 4,156,211	\$ 4,167,760

See accompanying Notes to Financial Statements.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Collected	\$ 8,810,211	\$ 8,343,333
Losses, Loss Adjustment, and Benefit Expenses Paid	(9,363,227)	(7,363,845)
Other Underwriting and Operating Expenses	(197,595)	(193,118)
Net Cash Provided (Used) by Operating Activities	(750,611)	786,370
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest Income Received	7,274	7,032
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(743,337)	793,402
Cash and Cash Equivalents - Beginning of Year	5,787,789	4,994,387
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,044,452	\$ 5,787,789
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (18,823)	\$ 644,065
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Accrued Expenses	1,694	2,332
Premium Insurance Payable	(37,659)	(47,931)
Reserve for Losses, Loss Adjustment, and Benefit Expenses	(695,823)	187,904
Net Cash Provided (Used) by Operating Activities	\$ (750,611)	\$ 786,370

See accompanying Notes to Financial Statements.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

CAWCD Insurance Company, Inc. (the Company) is a blended component unit of the Central Arizona Water Conservation District (CAWCD). The primary objective in forming the Company is to provide stable insurance coverage by ensuring availability of appropriate coverage for lower layers of CAWCD's insurance program, controlling and managing the claims process, developing specific loss prevention/loss control services, and stabilizing the changes in self-insured retention, perils covered and premiums charged for CAWCD's insurance program.

The Company was incorporated under the laws of the State of Hawaii and 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. CAWCD is the sole member of the Company and was initially capitalized with \$350,000, of which \$250,000 was required. Effective January 1, 2012, the Company was required to increase its capitalization by \$2,000,000.

The Company insures the following risks, by policy, for the period January 1, 2017 to January 1, 2018:

<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	\$1,000,000 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
Health benefit program	The Company provides medical, prescriptions, dental, and vision for Central Arizona Water Conservation District's (CAWCD) self-funded health and benefits program covering CAWCD's eligible employees, COBRA participants, and retirees.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Reporting Entity (Continued)

The Company insured the same risks by policy, as stated above, for the period January 1, 2016 to January 1, 2017 except for the Public Officials Liability was \$2,000,000 per claim.

Health Benefits

The Plan offers first day health benefits (including dental and vision) to full-time employees working 30 or more hours per week and Central Arizona Water Conservation District retirees, their beneficiaries and covered dependents. The cost of health care services is recognized as a deduction in the period in which it is provided to participants. Liabilities for health claims incurred but not reported are estimated by an independent actuary.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 operating revenues and expenses of the Company generally result from providing insurance coverage to CAWCD and Affiliates in connection with the Company's ongoing operations.

Cash, Cash Equivalents, and Deposits

The Company's cash and cash equivalents are considered to be cash in bank and money market funds with maturities of 90 days or less when originally acquired. Escrow deposit relates to cash held in escrow to pay claims by the Company's claim administrator as of December 31, 2017 and 2016. The certificate of deposit has a maturity date extending beyond 90 days.

Reserve for Losses, Loss Adjustment, and Benefit Expenses

The reserve for losses, loss adjustment, and benefit 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. In estimating the unpaid loss, loss adjustment and benefit expenses, the Company and its consulting actuaries, employ methods and assumptions they consider reasonable and appropriate given the information currently available. The reserve for losses, loss adjustment and benefit expenses is based upon the aggregated loss experience of CAWCD and is estimated using individual case-basis valuations and statistical analysis. These estimates are subject to the effects of trends in loss severity and frequency. Management believes the reserve for losses, loss adjustment, and benefit expenses is adequate. The estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; the effects of such adjustments are included in current operations.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for Losses, Loss Adjustment, and Benefit Expenses (Continued)

There is a level of uncertainty inherent in the evaluation of the required losses, loss adjustment and benefit expense reserves for the Company. The long-tailed nature of liability claims adds to the uncertainty. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors.

The Company's claim reserving procedures and settlement philosophy, current and perceived social conditions, economic inflation, current and future court rulings and jury attitudes, improvements in medical technology, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate costs of claims. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments to reserves are reflected in the operating results of the periods in which they are made.

Excess Insurance

The Company uses excess insurance to reduce exposure to losses. Excess insurance permits recovery of a portion of losses, although it does not discharge the primary liability of the Company as direct insurer of the risks insured.

Premium Revenue

The Company derives all of its premium revenue from CAWCD. 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.

Use of Estimates in Preparing Financial Statements

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 a number of 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. Management believes that its estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications are strictly contained within liability accounts and there is no impact on previously reported net position.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 CASH, CASH EQUIVALENTS, AND DEPOSITS

The following is a summary of the Company's cash, cash equivalents, and deposits:

	2017	2016
Cash in Bank	\$ 4,116,270	\$ 4,763,983
Maximizer Savings	928,182	1,023,806
Total Cash and Cash Equivalents	5,044,452	5,787,789
Escrow Deposits	10,000	10,000
Certificate of Deposit	2,394,917	2,394,917
Total Cash and Investments	\$ 7,449,369	\$ 8,192,706

CAWCD is authorized to self-insure workers' compensation in the State of Arizona. The State of Arizona requires CAWCD to establish trust funds for the payment of losses and claims for the self-insured workers' compensation program. CAWCD utilized the Company's captive insurance authority to meet the State of Arizona requirement. The Company opened a maximizer savings account for an initial amount of \$350,000 with First Hawaiian Bank.

At December 31, 2017 and 2016, the Company's reported cash and certificates of deposits were \$7,439,367 and \$8,182,706, respectively. The bank balances related to these deposits totaled \$7,660,401 and \$8,526,534 at December 31, 2017 and 2016, respectively. Bank balances of \$7,410,401 and \$8,276,534 at December 31, 2017 and 2016, respectively, are uncollateralized. Cash is a legally authorized investment pursuant to the Hawaii Insurance Code.

The Company manages its exposure to interest rate risk by limiting the weighted average maturity of its money market mutual funds to 90 days. The Company's money market mutual funds are unrated.

NOTE 3 PREMIUMS

The Company agrees to pay out premiums for CAWCD's insurance policies covering workers compensation and public officials' risks in excess of \$1,000,000, including property risk in excess of \$2,000,000, to the extent the Company receives such premiums from CAWCD. For the policy periods January 1, 2016 to January 1, 2018, the Company's premium revenue consisted of the following:

	2017		2016	
	Written	Earned	Written	Earned
Direct Premiums	\$ 9,847,404	\$ 9,847,404	\$ 9,316,719	\$ 9,316,719
Premiums to Third-Party Insurers	(999,534)	(999,534)	(925,455)	(925,455)
Net Premiums	\$ 8,847,870	\$ 8,847,870	\$ 8,391,264	\$ 8,391,264

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 RESERVE FOR LOSSES, LOSS ADJUSTMENT AND BENEFIT EXPENSES

The following table provides a reconciliation of the beginning and ending balances of the reserve for losses, loss adjustment and benefit expenses at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance - Beginning of Year	<u>\$ 3,920,021</u>	<u>\$ 3,732,117</u>
Add Provision for Losses, Loss Adjustment and Benefit Expenses for Claims Occurring During:		
Current Year	8,017,360	7,792,184
Prior Years	<u>650,044</u>	<u>(240,435)</u>
	<u>8,667,404</u>	<u>7,551,749</u>
Deduct Losses, Loss Adjustment and Benefit Expenses Payments for Claims Occurring During:		
Current Year	7,959,919	6,932,108
Prior Years	<u>1,403,308</u>	<u>431,737</u>
	<u>9,363,227</u>	<u>7,363,845</u>
Balance - End of Year	<u><u>\$ 3,224,198</u></u>	<u><u>\$ 3,920,021</u></u>

In 2017, reserves for losses, loss adjustment, and benefit expenses decreased by \$695,823, or 18% as a result of the largest claim outstanding from the 2012 policy year being settled before the year was over.

In 2016, reserves for losses, loss adjustment, and benefit expenses increased by \$187,904, or 5% as a result of unfavorable loss development and actual loss experience related to the 2012 policy year.

NOTE 5 INCOME TAXES

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

NOTE 6 RELATED PARTY TRANSACTIONS

CAWCD performs certain administrative functions for the Company at no charge to the Company.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7 MINIMUM CAPITAL AND SURPLUS

The Hawaii Insurance Division has established certain minimum capital and surplus requirements for the Company. Effective January 2012, the minimum capital and surplus was increased from \$250,000 to \$2,250,000 by the Hawaii Insurance Division which is attributed to the addition of the self-funded health and benefits program of CAWCD. As of December 31, 2017 and 2016, the Company was in compliance with the minimum capital and surplus requirements of the state of Hawaii.

NOTE 8 SUBSEQUENT EVENTS

Management evaluated subsequent events through April 17, 2018, the date the financial statements were available to be issued.