

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	6
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of CAWCD Insurance Company, Inc. (the Company), a component unit of the Central Arizona Water Conservation District (CAWCD), which comprise the statements of net position as of December 31, 2018 and 2017, 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 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 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, 2018 and 2017, 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 16, 2019

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

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>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Cash, Cash Equivalents, and Certificate of Deposit	\$ 7,759,119	\$ 7,439,369	\$ 8,182,706
Escrow Deposit	10,000	10,000	10,000
Premium Receivable	16,854	-	-
Total Assets	<u>\$ 7,785,973</u>	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>
Liabilities:			
Accrued Expenses	\$ 72,586	\$ 68,960	\$ 67,266
Premium Insurance Payable	-	-	37,659
Reserve for Losses, Loss Adjustment, and Benefit Expenses	<u>5,935,438</u>	<u>3,224,198</u>	<u>3,920,021</u>
Total Liabilities	6,008,024	3,293,158	4,024,946
Net Position	<u>1,777,949</u>	<u>4,156,211</u>	<u>4,167,760</u>
Total Liabilities and Net Position	<u>\$ 7,785,973</u>	<u>\$ 7,449,369</u>	<u>\$ 8,192,706</u>

In 2018, the increase in total assets is attributed to premiums mainly for the health benefits program.

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

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017

In 2018, reserves for losses, loss adjustment and benefit expenses increased by \$2,711,240 or 84% due to unfavorable loss development and actual loss experience, mainly on property coverage, during the reporting year and with inclusion of hearing loss.

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.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue			
Premiums Written	\$ 10,102,704	\$ 9,847,404	\$ 9,316,719
Less Premiums to Third-Party Insurers	972,123	999,534	925,455
Premiums Written, Net	<u>\$ 9,130,581</u>	<u>\$ 8,847,870</u>	<u>\$ 8,391,264</u>
Premiums Earned, Net	\$ 9,130,581	\$ 8,847,870	\$ 8,391,264
Investment Income	16,739	7,274	7,032
Total Revenue	<u>\$ 9,147,320</u>	<u>\$ 8,855,144</u>	<u>\$ 8,398,296</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, including premiums the Company pays to third-party insurers and operating expenses.

In 2018 and 2017, the Company's written premiums increased by \$255,300 or 3% and \$530,685 or 6%, respectively, mainly due to premiums for the health benefit program.

In 2018 and 2017, investment income increased by \$9,465 or 130%, and \$242 or 3%, respectively, due to higher interest rates.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expenses			
Losses, Loss Adjustment, and Benefit Expenses	\$ 11,318,626	\$ 8,667,404	\$ 7,551,749
Other Underwriting Expenses	33,162	32,584	27,536
Operating Expenses	173,794	166,705	167,914
Total Expenses	<u>\$ 11,525,582</u>	<u>\$ 8,866,693</u>	<u>\$ 7,747,199</u>

In 2018, losses, loss adjustment and benefit expenses increased by \$2,651,222 or 31% due to unfavorable loss development and actual loss experience, mainly on property coverage, during the reporting year and inclusion of hearing loss.

The increase in losses, loss adjustment, and benefit expenses for 2017 is primarily attributed to a claim settlement payment for 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, 2018 AND 2017

	2018	2017	2016
Net Position			
Net Position:			
Restricted	\$ 2,250,000	\$ 2,250,000	\$ 2,250,000
Unrestricted	(472,051)	1,906,211	1,917,760
	\$ 1,777,949	\$ 4,156,211	\$ 4,167,760
Change in Net Position:			
Net Position, Beginning of Year	\$ 4,156,211	\$ 4,167,760	\$ 3,516,663
Change in Net Position	(2,378,262)	(11,549)	651,097
	\$ 1,777,949	\$ 4,156,211	\$ 4,167,760

The decrease in net position for 2018 is primarily attributed to unfavorable loss development and actual loss experience during the reporting year.

The decrease in net position for 2017 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:

Douglas A. Dunlap, CPA
 VP, CFO and Treasurer
 Post Office Box 43020
 Phoenix, Arizona 85080-3020
 623-869-2360
ddunlap@cap-az.com

Theodore C. Cooke
 President and CEO
 Post Office Box 43020
 Phoenix, Arizona 85080-3020
 623-869-2167
tcooke@cap-az.com

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Cash Equivalents	\$ 5,364,202	\$ 5,044,452
Certificate of Deposit	2,394,917	2,394,917
Escrow Deposit	10,000	10,000
Premium Receivable	<u>16,854</u>	<u>-</u>
Total Assets	<u><u>\$ 7,785,973</u></u>	<u><u>\$ 7,449,369</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accrued Expenses	\$ 72,586	\$ 68,960
Reserve for Losses, Loss Adjustment, and Benefit Expenses:		
Reported Claims	2,986,443	583,883
Claims Incurred but not Reported	<u>2,948,995</u>	<u>2,640,315</u>
Total Liabilities	<u>6,008,024</u>	<u>3,293,158</u>
NET POSITION		
Restricted	2,250,000	2,250,000
Unrestricted	<u>(472,051)</u>	<u>1,906,211</u>
Total Net Position	<u>1,777,949</u>	<u>4,156,211</u>
Total Liabilities and Net Position	<u><u>\$ 7,785,973</u></u>	<u><u>\$ 7,449,369</u></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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Premiums Earned, Net	\$ 9,130,581	\$ 8,847,870
OPERATING EXPENSES		
Losses, Loss Adjustment, and Benefit Expenses	11,318,626	8,667,404
Other Underwriting Expenses	33,162	32,584
Operating Expenses	173,794	166,705
Total Operating Expenses	11,525,582	8,866,693
OPERATING LOSS	(2,395,001)	(18,823)
NONOPERATING ACTIVITY		
Investment Income	16,739	7,274
CHANGES IN NET POSITION	(2,378,262)	(11,549)
Net Position - Beginning of Year	4,156,211	4,167,760
NET POSITION - END OF YEAR	\$ 1,777,949	\$ 4,156,211

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Collected	\$ 9,113,727	\$ 8,810,211
Losses, Loss Adjustment, and Benefit Expenses Paid	(8,607,386)	(9,363,227)
Other Underwriting and Operating Expenses	(203,330)	(197,595)
Net Cash Provided (Used) by Operating Activities	303,011	(750,611)
 CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest Income Received	16,739	7,274
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	319,750	(743,337)
Cash and Cash Equivalents - Beginning of Year	5,044,452	5,787,789
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,364,202	\$ 5,044,452
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (2,395,001)	\$ (18,823)
Adjustment to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Premium Receivable	(16,854)	-
Accrued Expenses	3,626	1,694
Premium Insurance Payable	-	(37,659)
Reserve for Losses, Loss Adjustment, and Benefit Expenses	2,711,240	(695,823)
Net Cash Provided (Used) by Operating Activities	\$ 303,011	\$ (750,611)

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, 2018 AND 2017

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, 2018 to January 1, 2019:

<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
Nonowned 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, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017. 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, 2018 AND 2017

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.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 CASH, CASH EQUIVALENTS, AND DEPOSITS

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

	2018	2017
Cash in Bank	\$ 4,270,963	\$ 4,116,270
Maximizer Savings	1,093,239	928,182
Total Cash and Cash Equivalents	5,364,202	5,044,452
Escrow Deposits	10,000	10,000
Certificate of Deposit	2,394,917	2,394,917
Total Cash and Investments	\$ 7,769,119	\$ 7,449,369

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, 2018 and 2017, the Company's reported cash and certificates of deposits were \$7,759,119 and \$7,439,369, respectively. The bank balances related to these deposits totaled \$7,939,360 and \$7,660,401 at December 31, 2018 and 2017, respectively. Bank balances of \$7,689,360 and \$7,410,401 at December 31, 2018 and 2017, 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, property and general liability risks in excess of \$2,000,000, including public officials' risk in excess of \$1,000,000, to the extent the Company receives such premiums from CAWCD. For the policy periods January 1, 2017 to January 1, 2019, the Company's premium revenue consisted of the following:

	2018		2017	
	Written	Earned	Written	Earned
Direct Premiums	\$ 10,102,704	\$ 10,102,704	\$ 9,847,404	\$ 9,847,404
Premiums to Third-Party Insurers	(972,123)	(972,123)	(999,534)	(999,534)
Net Premiums	\$ 9,130,581	\$ 9,130,581	\$ 8,847,870	\$ 8,847,870

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	2018	2017
Balance - Beginning of Year	\$ 3,224,198	\$ 3,920,021
Add Provision for Losses, Loss Adjustment and Benefit Expenses for Claims Occurring During:		
Current Year	11,304,626	8,017,360
Prior Years	14,000	650,044
Total	11,318,626	8,667,404
Deduct Losses, Loss Adjustment and Benefit Expenses Payments for Claims Occurring During:		
Current Year	8,441,694	7,959,919
Prior Years	165,692	1,403,308
Total	8,607,386	9,363,227
Balance - End of Year	\$ 5,935,438	\$ 3,224,198

In 2018, reserves for losses, loss adjustment and benefit expenses increased by \$2,711,240 or 84% due to unfavorable loss development and actual loss experience, mainly on property coverage, during the reporting year and inclusion of hearing loss.

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.

NOTE 5 RELATED PARTY TRANSACTIONS

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

NOTE 6 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, 2018 and 2017, the Company was in compliance with the minimum capital and surplus requirements of the state of Hawaii.