

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018



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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 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, 2019 and 2018, 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 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.

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, 2019 and 2018, 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 14, 2020

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018.

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>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Cash, Cash Equivalents, and Certificate of Deposit	\$ 8,791,518	\$ 7,759,119	\$ 7,439,369
Escrow Deposit	10,000	10,000	10,000
Premium Receivable	36,583	16,854	-
Total Assets	<u>\$ 8,838,101</u>	<u>\$ 7,785,973</u>	<u>\$ 7,449,369</u>
Liabilities:			
Accrued Expenses	\$ 72,045	\$ 72,586	\$ 68,960
Reserve for Losses, Loss Adjustment, and Benefit Expenses	<u>5,421,792</u>	<u>5,935,438</u>	<u>3,224,198</u>
Total Liabilities	5,493,837	6,008,024	3,293,158
Net Position	<u>3,344,264</u>	<u>1,777,949</u>	<u>4,156,211</u>
Total Liabilities and Net Position	<u>\$ 8,838,101</u>	<u>\$ 7,785,973</u>	<u>\$ 7,449,369</u>

Increase in total assets in 2019 and 2018 is mainly attributed to the premiums for the health benefits program during the reported years.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

In 2019, reserves for losses, loss adjustment, and benefit expenses decreased by \$513,646 or 9% as a result of changes in estimates from insured events in prior year due to favorable underwriting experience and frequency and severity trends for the property coverage, including change in estimates for the health benefits program.

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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenue			
Gross Premiums Written	\$ 10,261,340	\$ 10,102,704	\$ 9,847,404
Less Premiums to Third-Party Insurers	<u>594,980</u>	<u>972,123</u>	<u>999,534</u>
Direct Premiums Written	<u>\$ 9,666,360</u>	<u>\$ 9,130,581</u>	<u>\$ 8,847,870</u>
Premiums Earned, Net	\$ 9,666,360	\$ 9,130,581	\$ 8,847,870
Investment Income	<u>15,856</u>	<u>16,739</u>	<u>7,274</u>
Total Revenue	<u>\$ 9,682,216</u>	<u>\$ 9,147,320</u>	<u>\$ 8,855,144</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 2019 and 2018, with the exclusion of premiums to third-party insurers on behalf of CAWCD, the Company's written premiums increased by \$535,779 or 6%, and \$282,711 or 3%, respectively, which is mainly attributed to premiums for the health benefit program.

In 2019, investment income decreased by \$883 or 5% due to lower interest rates.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Expenses			
Losses, Loss Adjustment, and Benefit Expenses	\$ 7,862,386	\$ 11,318,626	\$ 8,667,404
Other Underwriting Expenses	30,144	33,162	32,584
Operating Expenses	<u>223,371</u>	<u>173,794</u>	<u>166,705</u>
Total Expenses	<u>\$ 8,115,901</u>	<u>\$ 11,525,582</u>	<u>\$ 8,866,693</u>

In 2019, losses, loss adjustment, and benefit expenses decreased by \$3,456,240 or 31% as a result of changes in estimates from insured events in prior year due to favorable underwriting experience and frequency and severity trends for the property coverage, including change in estimates for the health benefits program.

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Position			
Net Position:			
Restricted	\$ 2,250,000	\$ 2,250,000	\$ 2,250,000
Unrestricted	1,094,264	(472,051)	1,906,211
	<u>\$ 3,344,264</u>	<u>\$ 1,777,949</u>	<u>\$ 4,156,211</u>
Change in Net Position:			
Net Position, Beginning of Year	\$ 1,777,949	\$ 4,156,211	\$ 4,167,760
Change in Net Position	1,566,315	(2,378,262)	(11,549)
	<u>\$ 3,344,264</u>	<u>\$ 1,777,949</u>	<u>\$ 4,156,211</u>
Net Position, End of Year	<u>\$ 3,344,264</u>	<u>\$ 1,777,949</u>	<u>\$ 4,156,211</u>

The increase in net position for 2019 is mainly attributed to changes in estimates from insured events in prior year due to favorable claims and underwriting experience and frequency and severity trends.

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

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, 2019 AND 2018

ASSETS	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	\$ 6,396,601	\$ 5,364,202
Certificate of Deposit	2,394,917	2,394,917
Escrow Deposit	10,000	10,000
Premium Receivable	<u>36,583</u>	<u>16,854</u>
 Total Assets	 <u>\$ 8,838,101</u>	 <u>\$ 7,785,973</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accrued Expenses	\$ 72,045	\$ 72,586
Reserve for Losses, Loss Adjustment, and Benefit Expenses:		
Reported Claims	2,988,886	2,986,443
Claims Incurred but not Reported	<u>2,432,906</u>	<u>2,948,995</u>
Total Liabilities	5,493,837	6,008,024
 NET POSITION		
Restricted	2,250,000	2,250,000
Unrestricted	<u>1,094,264</u>	<u>(472,051)</u>
Total Net Position	<u>3,344,264</u>	<u>1,777,949</u>
 Total Liabilities and Net Position	 <u>\$ 8,838,101</u>	 <u>\$ 7,785,973</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, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Premiums Earned, Net	\$ 9,666,360	\$ 9,130,581
OPERATING EXPENSES		
Losses, Loss Adjustment, and Benefit Expenses	7,862,386	11,318,626
Other Underwriting Expenses	30,144	33,162
Operating Expenses	223,371	173,794
Total Operating Expenses	8,115,901	11,525,582
OPERATING INCOME (LOSS)	1,550,459	(2,395,001)
NONOPERATING ACTIVITY		
Investment Income	15,856	16,739
CHANGES IN NET POSITION	1,566,315	(2,378,262)
Net Position - Beginning of Year	1,777,949	4,156,211
NET POSITION - END OF YEAR	\$ 3,344,264	\$ 1,777,949

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Collected	\$ 9,646,631	\$ 9,113,727
Losses, Loss Adjustment, and Benefit Expenses Paid	(8,376,032)	(8,607,386)
Other Underwriting and Operating Expenses	(254,056)	(203,330)
Net Cash Provided by Operating Activities	1,016,543	303,011
 CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest Income Received	15,856	16,739
 NET INCREASE IN CASH AND CASH EQUIVALENTS	1,032,399	319,750
Cash and Cash Equivalents - Beginning of Year	5,364,202	5,044,452
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,396,601	\$ 5,364,202
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,550,459	\$ (2,395,001)
Adjustment to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Premium Receivable	(19,729)	(16,854)
Accrued Expenses	(541)	3,626
Reserve for Losses, Loss Adjustment, and Benefit Expenses	(513,646)	2,711,240
Net Cash Provided by Operating Activities	\$ 1,016,543	\$ 303,011

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, 2019 AND 2018

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, 2019 to January 1, 2020:

<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, 2019 AND 2018

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, 2019 and 2018. 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, 2019 AND 2018

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, 2019 AND 2018

NOTE 2 CASH, CASH EQUIVALENTS, AND DEPOSITS

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

	2019	2018
Cash in Bank	\$ 5,203,960	\$ 4,270,963
Maximizer Savings	1,192,641	1,093,239
Total Cash and Cash Equivalents	6,396,601	5,364,202
Escrow Deposits	10,000	10,000
Certificate of Deposit	2,394,917	2,394,917
Total Cash and Investments	\$ 8,801,518	\$ 7,769,119

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.

At December 31, 2019 and 2018, the Company's reported cash and certificates of deposits were \$8,791,518 and \$7,759,119, respectively. The bank balances related to these deposits totaled \$9,025,736 and \$7,939,360 at December 31, 2019 and 2018, respectively. Bank balances of \$8,775,736 and \$7,689,360 at December 31, 2019 and 2018, 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, 2018 to January 1, 2020, the Company's premium revenue consisted of the following:

	2019		2018	
	Written	Earned	Written	Earned
Gross Premiums Written	\$ 10,261,340	\$ 10,261,340	\$ 10,102,704	\$ 10,102,704
Less Premiums to				
Third-Party Insurers	(594,980)	(594,980)	(972,123)	(972,123)
Direct Premiums Written	\$ 9,666,360	\$ 9,666,360	\$ 9,130,581	\$ 9,130,581

CAWCD INSURANCE COMPANY, INC.
(A COMPONENT UNIT OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance - Beginning of Year	\$ 5,935,438	\$ 3,224,198
Add Provision for Losses, Loss Adjustment and Benefit Expenses for Claims Occurring During:		
Current Year	8,291,146	11,304,626
Prior Years	<u>(428,760)</u>	<u>14,000</u>
Total	<u>7,862,386</u>	<u>11,318,626</u>
Deduct Losses, Loss Adjustment and Benefit Expenses Payments for Claims Occurring During:		
Current Year	8,234,532	8,441,694
Prior Years	<u>141,500</u>	<u>165,692</u>
Total	<u>8,376,032</u>	<u>8,607,386</u>
Balance - End of Year	<u>\$ 5,421,792</u>	<u>\$ 5,935,438</u>

In 2019, reserves for losses, loss adjustment, and benefit expenses decreased by \$513,646 or 9% as a result of changes in estimates from insured events in prior years due to favorable underwriting experience and frequency and severity trends for the property coverage including the health benefits program.

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.

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, 2019 and 2018, the Company was in compliance with the minimum capital and surplus requirements of the state of Hawaii.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

