



**STATE OF ARIZONA  
REGISTRAR OF CONTRACTORS  
RESIDENTIAL CONTRACTORS' RECOVERY FUND**

**FINANCIAL STATEMENT  
Year Ended June 30, 2018**

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## TABLE OF CONTENTS

Independent Accountants' Report-----	1
Financial Statement	
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance.....	2
Notes to Financial Statement.....	3-5



**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**ARIZONA AUDITOR GENERAL**  
**LINDSEY A. PERRY**

**JOSEPH D. MOORE**  
DEPUTY AUDITOR GENERAL

## **Independent accountants' report**

Members of the Arizona State Legislature

Jeff Fleetham, Director  
Arizona Registrar of Contractors

We have examined the accompanying Registrar of Contractors' Residential Contractors' Recovery Fund statement of cash receipts, cash disbursements, and changes in fund cash balance (statement) for the year ended June 30, 2018, and the related notes to the statement. The Registrar of Contractors' management is responsible for presenting this statement in accordance with the criteria described in Note 1. Our responsibility is to express an opinion on this statement based on our examination.

We conducted our examination in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the statement is in accordance with the criteria in all material respects. An examination involves performing procedures to obtain evidence about the statement. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the statement, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the statement referred to above is presented in accordance with the criteria described in Note 1 in all material respects.

Donna Miller, CPA  
Director, Financial Audit Division

June 3, 2019

STATE OF ARIZONA  
REGISTRAR OF CONTRACTORS  
RESIDENTIAL CONTRACTORS' RECOVERY FUND  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCE AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**CASH RECEIPTS**

New license fees	\$ 524,565
License renewal fees	3,921,282
Recoveries	280,817
Civil penalties	60,260
Interest	224,256
<b>TOTAL CASH RECEIPTS</b>	<b>5,011,180</b>

**CASH DISBURSEMENTS**

Personal services	225,480
Employee related expenditures	87,038
Rent	11,520
Other operating expenditures	6,678
Judgments	1,529,736
<b>TOTAL CASH DISBURSEMENTS</b>	<b>1,860,452</b>

EXCESS OF RECEIPTS OVER DISBURSEMENTS	3,150,728
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<b>FUND CASH BALANCE - Beginning of Year</b>	12,519,017
<b>FUND CASH BALANCE - End of Year</b>	<b>15,669,745</b>

**FUND CASH BALANCE Consists of:**

Cash Held by State Treasurer	140,182
Investments Held by State Treasurer	15,529,563
	<b>\$ 15,669,745</b>

See accompanying Notes to Financial Statements

STATE OF ARIZONA REGISTRAR OF CONTRACTORS RESIDENTIAL  
CONTRACTORS' RECOVERY FUND NOTES TO FINANCIAL STATEMENT  
As of and for the Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance (the Statement) is presented on the cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The differences between GAAP and cash basis accounting are discussed in more detail in Section C “Basis of Accounting.”

A. Reporting Entity

The Residential Contractors' Recovery Fund (the Fund) was established by the Arizona State Legislature to be administered by the Arizona Registrar of Contractors (the Registrar). The Fund is part of the State of Arizona's (the State) reporting entity. However, the Statement is intended to present solely the cash transactions of the Fund. This statement does not present the financial position or changes in financial position of the State or the Registrar. The State issues a publicly available Comprehensive Annual Financial Report (CAFR). Copies of the CAFR are available on the Arizona Department of Administration's General Accounting Office's (GAO) website at [www.gao.az.gov](http://www.gao.az.gov), or can be obtained by contacting GAO at 100 North 15<sup>th</sup> Avenue, 3<sup>rd</sup> Floor, Suite 302, Phoenix, Arizona 85007.

Arizona Revised Statutes (ARS) §32-1134 directs the Registrar to file an annual statement of the condition of the Fund with the Department of Insurance. To comply with this statute, the accompanying Statement is prepared and limited to the presentation of cash activities of the Fund.

The Fund's financial reporting entity is composed solely of the Residential Contractor's Recovery Fund. There are no affiliated organizations that require inclusion as blended or discretely presented component units.

The reporting entity consists of a single governmental special revenue fund. Special revenue funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for a specified purpose or committed to finance particular functions or activities of a government.

The Residential Contractors' Recovery Fund was established by the Arizona State Legislature under ARS §32-1132 and is administered by the Arizona Registrar of Contractors. Any person injured by an act, representation, transaction or conduct of a licensed Arizona residential contractor may, within statutory limitation, be awarded monetary damages from the Fund. Payments for claims may not exceed thirty thousand dollars (\$30,000) per claim (ARS §32-1132), or accumulated claims of two hundred thousand

STATE OF ARIZONA REGISTRAR OF CONTRACTORS RESIDENTIAL  
CONTRACTORS' RECOVERY FUND NOTES TO FINANCIAL STATEMENT  
As of and for the Year Ended June 30, 2018

dollars (\$200,000) for any one residential contractor's license (ARS§ 32-1139). Complaints that lead to a Recovery Fund claim can be filed within two years from the commission of the act. Additionally, at the time of application or renewal, most contractors remit fees for a two-year licensing period.

**B. Fund Financial Statements**

The focus of the Statement is on the sources, uses and balances of cash resources.

**C. Basis of Accounting**

As required by ARS §32-1134(A)(1), the Statement is prepared using the cash basis of accounting. This basis of accounting recognizes cash receipts and transfers in when monies are received; disbursements are recognized when payment is made for goods and services received; and transfers out are recognized when monies are transferred.

**NOTE 2 – CASH AND INVESTMENTS HELD BY THE STATE TREASURER**

All cash is deposited or invested with the Arizona State Treasurer (Treasurer). The Treasurer is part of the State's financial reporting entity and issues a separately published Annual Financial Report. A copy of the State Treasurer's Office Annual Financial Report can be obtained from its website at [www.aztreasury.gov](http://www.aztreasury.gov) or by contacting the State Treasurer's Office at 1700 West Washington, Phoenix Arizona 85007.

ARS §35-146 requires State agencies' monies to be deposited with the State Treasurer, and further require those deposits to be invested in various pooled funds.

Cash and investments held by the State Treasurer represent the Fund's portion of those monies. The Treasurer invests idle monies of state agencies in an internal investment pool (Pool 3) and distributes interest to the participants. Interest earned from these invested monies is allocated monthly based on average daily cash balances. Participant shares in the pool are purchased and sold based on the Net Position Value of the shares and a participant's portion of the pool is not identified with specific investments. Accordingly, the Fund's portion of these deposits and investments approximates the Fund's value of pool shares.

STATE OF ARIZONA REGISTRAR OF CONTRACTORS RESIDENTIAL  
CONTRACTORS' RECOVERY FUND NOTES TO FINANCIAL STATEMENT  
As of and for the Year Ended June 30, 2018

The Treasurer's internal investment Pool 3 is not required to be registered (and is not registered) with the Securities and Exchange Commission under the 1940 Investments Advisors Act. In accordance with ARS §35-311, the State Board of Investment reviews the activities and performance of the pool monthly. The State Treasurer's Investment Pool 3 is not rated and as of June 30, 2018, the portfolio weighted average to maturity of the Pool's investments is 1.40 years.

At June 30, 2018, the Fund's deposits with the State Treasurer were as follows:

	Amount
Cash deposits	\$ 140,182
Investment Pool 3	<u>15,529,563</u>
	<u>\$ 15,669,745</u>