



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

**FINANCIAL STATEMENT  
Year Ended June 30, 2006**

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REGISTRAR OF CONTRACTORS  
RESIDENTIAL CONTRACTORS' RECOVERY FUND**

**FINANCIAL STATEMENT  
Year Ended June 30, 2006**

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

Fidelis V. Garcia, Acting Director  
State of Arizona Registrar of Contractors

We have audited the accompanying Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance for the Residential Contractors' Recovery Fund as of and for the year ended June 30, 2006. This statement is the responsibility of the Registrar of Contractors' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on a basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance referred to above present fairly, in all material respects, the fund cash balance of the Registrar of Contractors' Residential Contractors' Recovery Fund as of June 30, 2006, and its cash receipts collected and expenses paid for the year then ended, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Registrar of Contractors and filing with the Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA  
Financial Audit Director

November 28, 2006

STATE OF ARIZONA  
REGISTRAR OF CONTRACTORS  
RESIDENTIAL CONTRACTORS' RECOVERY FUND  
STATEMENT CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCE  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

**CASH RECEIPTS**

New license fees	\$ 1,754,067
License renewal fees	4,421,203
Recoveries	651,000
Civil penalties	1,800
Interest	297,952
Reversions	1,642
<b>TOTAL CASH RECEIPTS</b>	<b><u>\$ 7,127,664</u></b>

**CASH DISBURSEMENTS**

Personal services	\$ 448,658
Employee related expenditures	153,570
Professional and outside services	77,157
Rent	19,685
Building improvements, furniture and equipment	99,846
Other operating expenditures	21,271
Public awareness	25,455
Judgements	3,234,184
<b>TOTAL CASH DISBURSEMENTS</b>	<b><u>\$ 4,079,826</u></b>

<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>	<b><u>\$ 3,047,838</u></b>
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<b>FUND CASH BALANCE - Beginning of Year</b>	<b><u>7,411,565</u></b>
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<b>FUND CASH BALANCE - End of Year</b>	<b><u><u>\$ 10,459,403</u></u></b>
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**FUND CASH BALANCE CONSISTS OF:**

Cash held by State Treasurer	\$ 181,302
Investments held by State Treasurer	10,278,101
	<b><u><u>\$ 10,459,403</u></u></b>

See accompanying Notes to Financial Statement

**STATE OF ARIZONA  
REGISTRAR OF CONTRACTORS  
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NOTES TO FINANCIAL STATEMENT  
Year Ended June 30, 2006**

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 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 posted on the Arizona Department of Administration's General Accounting Office's (GAO) website at [www.gao.state.az.us](http://www.gao.state.az.us) 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 the cash activities of the Fund.

The Fund's financial reporting entity is composed solely of the Residential Contractors' 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 designated 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 Registrar of Contractors. Any person injured by an act, representation, transaction or conduct of a licensed Arizona residential contractor may, within statutory

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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 dollars (\$200,000) for any one residential contractor's license (ARS §32-1139). Claims or court actions 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 Statement**

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 changes in the fund balance; receipts and disbursements from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for provided services not yet collected and capital assets) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in the financial statement. No accruals have been made for losses reported but unpaid and losses incurred but not reported. Unearned revenues have not been deferred.

**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 85007-2812.

Arizona Revised Statutes (ARS) requires state agencies' monies to be deposited with the State Treasurer, and further requires 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

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internal investment pool (Pool 3) and distributes interest to the participants. Interest earned from these invested monies is allocated monthly based on the average daily balance. Participant shares in the pool are purchased and sold based on the Net Asset 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.

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 Investment Company Act of 1940. In accordance with ARS §35-311, the State Board of Investments reviews the activities and performance of the pool monthly. The State Treasurer's Investment Pool 3 is not rated and as of June 30, 2006, the weighted average to maturity of the Pool's investments is 1.58 years.

At June 30, 2006, the Fund's deposits with the State Treasurer were as follows:

	Amount
Cash deposits	\$181,302
Investment Pool 3	<u>10,278,101</u>
	<u>\$10,459,403</u>