

**ARIZONA PROPERTY AND CASUALTY
INSURANCE GUARANTY FUND**

2018 ANNUAL REPORT

This Annual Report provides financial information and a summary of the activities of the Arizona Property and Casualty Insurance Guaranty Fund ("APCIGF") for calendar year 2018. The information herein is of a general nature and should not be considered legal advice.

REPORT FROM THE CHAIR OF THE BOARD OF DIRECTORS

On behalf of the Arizona Property and Casualty Insurance Guaranty Fund ("APCIGF"), I am pleased to present the 2018 Annual Report. This report is prepared and submitted pursuant to A.R.S. § 20-678.

The APCIGF Board of Directors met twice in 2018, on March 13 and again on September 11, the Annual Meeting, at which officers were elected and standing committees were appointed.

There was one new insolvency case in 2018 for which APCIGF was activated. Access Insurance Company, a Texas domiciled company, was ordered into liquidation effective March 13, 2018. APCIGF received 29 auto claims from this insolvency.

In 2018, APCIGF paid \$510,726 in claim settlements and loss adjustment expenses and \$7,441 in unearned premium returns with respect to the Auto Account. APCIGF paid \$28,193 in loss adjustment expenses with respect to the All Other Account. APCIGF paid \$10,102,671 in Workers' Compensation benefits and \$605,127 in Workers' Compensation loss adjustment expenses.

Member insurers are subject to two types of assessments from APCIGF: Class A and Class B. Class A assessments provide for administrative and operating expenses of APCIGF and may not exceed \$200 per member insurer per year. Class B assessments provide for the payment of policyholder claims. Class B assessments are pro rata and may not exceed one percent (1%) of the net direct premium written by a member insurer for each account. No Class A or Class B assessments were levied on member insurers in 2018.

APCIGF is a member of and works closely with and through the National Conference of Insurance Guaranty Funds ("NCIGF") with respect to multi-state insurer insolvencies. Representatives of APCIGF are active on NCIGF insolvency coordinating committees and general committees. Membership and participation in NCIGF helps APCIGF achieve efficiencies in performing its statutory duties that would not be possible acting on its own.

APCIGF uses all of the tools at its disposal to protect Arizona resident insureds and claimants in the unfortunate event of insurer insolvency, acting with transparency and due diligence in regard to its finances and operational matters.

Respectfully,

Sara M. Begley, Esq., CPCU
Chair of the Board of Directors

DESCRIPTION OF THE GUARANTY FUND AND ITS BOARD OF DIRECTORS

The Arizona Property and Casualty Insurance Guaranty Fund ("APCIGF") was created in 1977 by the Arizona legislature. APCIGF is within the Arizona Department of Insurance and is governed by A.R.S. §§ 20-661 through 20-680.

The purpose of APCIGF is to protect Arizona resident insureds and claimants in the unfortunate event of the insolvency of a member insurance company that is licensed to write property, casualty, liability or workers' compensation business in Arizona.

APCIGF is responsible for providing a defense to Arizona insureds and paying the claims of insureds and third parties, subject to the terms of the policy and statutory limitations on benefits.

When a court finds that an insurance company is insolvent and orders that it be liquidated, a receiver takes control of the insurer under the court's supervision and liquidates the insurer's assets. APCIGF is activated upon the entry of a final order of liquidation and begins the process of handling the remaining claims of the insolvent insurer in Arizona. APCIGF becomes a creditor of the insolvent insurer to the extent of the payments it makes to or on behalf of policyholders. When the assets of the insolvent insurer allow, the liquidator may distribute money to the affected guaranty funds to assist with the funding of claim payments. This process is called "early access." APCIGF typically recovers a portion of the costs of handling and paying claims from the estate of the insolvent insurer through interim and final distributions. If additional funds are needed to pay claims, APCIGF's Board of Directors may levy an assessment on member insurance companies.

An insurance company becomes a member insurer of APCIGF by operation of law upon becoming licensed to write a line of business for which coverage is provided by APCIGF. Some lines of business are excluded from coverage by APCIGF, such as title insurance, surety, credit insurance, mortgage guarantee, ocean marine, insurance of warranties or service contracts and any business written on a surplus lines ("non-admitted") basis.

APCIGF is governed by a Board of Directors of up to eleven members appointed by the Governor upon recommendations made by the Director of Insurance, including one member representing the public and one member that is a licensed property/casualty producer. Day to day operations are managed by an Executive Director and support staff.

The Board of Directors typically meets twice each year, in March and again in September. The September meeting is the annual meeting at which officers are elected and standing committees are appointed. Additional meetings may be called by the Board Chair if necessary. All meetings are open to the public. However, the Board may go into executive session to discuss certain matters, such as the financial condition of a member insurer or to confer with legal counsel.

APCIGF undergoes an independent financial audit each year. The audited financial statements for 2018 are attached to this report.

BOARD OF DIRECTORS

Chair

Sara M. Begley, Esq., CPCU
Executive Vice President, General Counsel &
Chief Compliance Officer
Copperpoint Insurance Company
Phoenix, AZ
Current term expires August 27, 2019

Vice Chair

Ronald E. Malpiedi
Vice President and Chief Operating Officer
Mutual Insurance Company of Arizona
Phoenix, AZ
Current term expires August 27, 2020

Secretary

Noel Cole Young, Esq.
Regional Counsel
Allstate Insurance Company
Tempe, AZ
Current term expires August 27, 2018

Treasurer

Paul H. Matson
Director
Arizona State Retirement System
Phoenix, AZ
Current term expires August 27, 2020

Charles P. Breitstadt, JD, CPCU, CLU, FLMI
Director of Government Affairs
Nationwide Insurance
Columbus, OH
Current term expires August 27, 2018

William Melchionni III
Deputy Head
U.S. Federal and State Government Affairs
American International Group, Inc.
New York, NY
Current term expires August 27, 2020

Rebecca Sanchez
Government Relations
American Family Insurance
Phoenix, AZ
Current term expires August 27, 2019

STANDING COMMITTEES

EXECUTIVE COMMITTEE

Sara M. Begley (Chair)
Ronald E. Malpiedi
Noel Cole Young
Paul H. Matson

AUDIT COMMITTEE

Sara M. Begley
Charles P. Breitstadt
Noel Cole Young

INVESTMENT COMMITTEE

Ronald E. Malpiedi
Paul H. Matson
William P. Melchionni, III

GOVERNANCE

APCIGF's activities and operations are governed by its enabling act, which may be found at A.R.S. §§ 20-661 – 20-680, a Plan of Operation, developed by the Board of Directors and approved by the Director of Insurance, and an Investment Policy, also developed by the Board of Directors and approved by the Director of Insurance. Both the Plan of Operation and Investment Policy are amended from time to time as determined necessary and appropriate by the Board of Directors.

**ARIZONA PROPERTY AND CASUALTY
INSURANCE GUARANTY FUND**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENT
BALANCES AND INDEPENDENT AUDITORS' REPORT**

YEAR ENDED DECEMBER 31, 2018

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
TABLE OF CONTENTS
DECEMBER 31, 2018**

FINANCIAL SECTION

Independent Auditors' Report	3
Management's Discussion and Analysis (MD&A)	5
Statement of Cash Receipts, Disbursements, and Changes in Cash and Investment Balances	9
Notes to Basic Financial Statements	11
Supplementary Information Schedule of Administrative Expenses	17

John C. Todd II, P.C.
Certified Public Accountants

Member
American Institute of CPAs
Arizona Society of CPAs
Government Audit Quality Center

21630 North 19th Avenue
Suite B-5
Phoenix, Arizona 85027
Telephone: (623) 581-8117
Fax: (623) 581-8906
E-Mail: cpas@jctodd2cpa.com

Independent Auditors' Report

The Board of Directors
Arizona Property and Casualty Insurance Guaranty Fund

Financial Statements

We have audited the accompanying statement of cash receipts, disbursements, and changes in cash and investment balances of Arizona Property and Casualty Insurance Guaranty Fund (Fund), a division of the Arizona Department of Insurance, as of and for the year ended December 31, 2018, and the related notes to the financial statement, which collectively comprise the Fund's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement referred to above presents fairly, in all material respects, the cash receipts, disbursements and changes in cash and investment balances of Arizona Property and Casualty Insurance Guaranty Fund as of and for the year ended December 31, 2018, in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

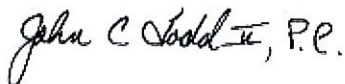
We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise the Fund's basic financial statement. The management's discussion and analysis and schedule of administrative expenses on pages 5-7 and on page 17, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2019, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Phoenix, Arizona
June 20, 2019

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2018**

This section of the Arizona Property and Casualty Insurance Guaranty Fund's (the "Fund") annual report presents management's discussion and analysis of the Fund's financial performance during the year ended December 31, 2018. This section of the report should be read in conjunction with the Fund's financial statements.

FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal and calendar year, the Fund reported an ending Fund Balance of \$220,098,333.
- There was one new insolvency case in 2018 for which the Fund was activated. Access Insurance Company, a Texas domiciled insurer was ordered into liquidation on March 3, 2018. The company wrote non-standard auto insurance.
- No assessments on member companies were levied in 2017, and there were no refunds to member insurers.
- Total receipts for the year were \$4,056,253:
 - Receivership distributions to the Fund totaled \$332,203.
 - Early access distributions to the Fund totaled \$110,530.
 - Gain on the Fund's investments for the year was \$81,753 (net of amortization/accretion and unrealized gains).
 - Gain on the Fund's investments - WC for the year was \$271,930 (net of amortization/accretion and unrealized gains).
- Total disbursements for the year were \$12,607,706.
 - The Fund paid \$546,360 in claims settlements and loss adjustment expenses for the Automobile Insurance Account and All Other Insurance Account.
 - The Fund paid \$10,707,798 in workers' compensation claims settlements and loss adjustment expenses.
 - The Fund paid administrative expenses of \$1,353,548.
- Net receipts for the year were (\$8,551,453).

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund is established within the Arizona Department of Insurance pursuant to Arizona Revised Statutes (A.R.S.) § 20-662. The Fund's governing body (Board of Directors) is appointed by the Governor upon recommendations made by the Director of Insurance. Accordingly, the Fund is considered a governmental organization for accounting, financial reporting and auditing purposes.

The basic financial statements for the Fund are presented on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Changes in the market value of investments and reductions in premiums/discounts relating to investments held by the Fund are also included. In addition, all items including the acquisition of furniture and equipment are expensed as paid and receivables, prepaid items, payables and accrued expenses are not reflected. Accordingly, the Fund's financial statements are not intended to present its financial position and the results of its operations in conformity with U.S. generally accepted accounting principles.

This report consists of three parts—the Independent Auditor's Report, Management's Discussion and Analysis (this section) and the Financial Statement and related notes to the financial statement. The Financial Statement consists of a Statement of Cash Receipts, Disbursements and Changes in Cash and Investment Balances.

FINANCIAL ANALYSIS OF THE FUND

The Fund Balance decreased by \$8,551,453 from December 31, 2017 to December 31, 2018 to \$220,098,333.¹

Total receipts for 2018 were \$4,056,253, an increase of \$1,439,109 over the prior year. Receivership and early access distributions for 2018 totaled \$442,733, a decline of \$395,195 over the prior year. Net investment income for 2018 was \$528,396, an increase of \$262,126 over the prior year. Workers' compensation net investment income for 2018 was \$3,085,124, an increase of \$1,572,178 over the prior year.

Total disbursements for 2018 were \$12,607,706, a decrease of \$1,056,152 from the prior year. Claims settlements and loss adjustment expenses for the Automobile Insurance Account and All Other Insurance Account were \$546,360, an increase of \$152,700 from the prior year. Workers' compensation claims settlements and loss adjustment expenses were \$10,707,798 a decrease of \$816,784 from the prior year. Administrative expenses for 2018 were \$1,353,548, a decrease of \$392,068 from the prior year.

¹ The stated amount includes monies received via early access distributions from open receiverships, which are subject to being recalled by the Liquidator if needed to pay claims of a higher priority.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE FUND (CONT'D)

The Fund maintains four accounts pursuant to A.R.S. § 20-662, an Automobile Insurance Account, an All Other Insurance Account, a Workers' Compensation Account and an Administrative Account. As of December 31, 2018, the balance in the Administrative Account was \$2,538,387, an increase of \$276,559 from the prior year. The balance in the Automobile Insurance Account was \$19,016,628, a decrease of \$399,125 from the prior year. The balance in the All Other Insurance Account was \$10,814,574, an increase of \$8,411 from the prior year. The balance in the Workers' Compensation Account was \$187,727,774 a decrease of \$8,437,298 from the prior year. The Fund's assessment capacity for 2018 was \$ 53.5 million for the Automobile Insurance Account, \$38.2 million for the All Other Insurance Account and \$8.5 million for the Workers' Compensation Account.

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

The property/casualty insurance industry has experienced an extended soft market phase of the underwriting cycle, particularly with regard to commercial lines. History has shown that insolvencies tend to be most likely to occur a year or more into the hard market phase of the underwriting cycle. Catastrophic losses, as a result of natural disasters or manmade events, may also trigger insolvencies. Recent years have produced a few new insurer insolvencies, but nothing approaching the level of activity that occurred from 2001-2005.

While it is impossible to know when insolvencies will occur, or how much in liabilities the Fund will be expected to pay as a result of future insolvencies, considering the Fund Balance at year end of over \$220 million and the Fund's current assessment capacity of over \$100 million, the Fund is well-positioned to handle its current claim liabilities and claim liabilities from new insolvencies.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Fund's finances. If you have questions about this report or need additional financial information, please contact the Fund's Executive Director at 100 North 15th Avenue, Suite 102, Phoenix, Arizona 85007, (602) 364-3863, or msurguine@azinsurance.gov.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENT BALANCES
YEAR ENDED DECEMBER 31, 2018**

Cash Receipts:	
Early access	\$ 110,530
Receivership distributions	332,203
Interest income	446,643
Interest income - WC	<u>2,813,194</u>
Total cash receipts	3,702,570
Cash Disbursements:	
Automobile insurance loss	305,782
Automobile insurance expense	204,944
Unearned automobile premium returns	7,441
Workers' compensation insurance loss	10,102,671
Workers' compensation insurance expense	605,127
Loss adjustment expense	28,193
Administrative expenses	<u>1,353,548</u>
Total cash disbursements	12,607,706
Cash receipts in excess of cash disbursements	(8,905,136)
Change in Investments:	
Amortization/accretion of investments	72,866
Amortization/accretion of investments - WC	228,347
Net realized/unrealized gain (loss) on investments	8,887
Net realized/unrealized gain (loss) on investments - WC	<u>43,583</u>
Total change in investments	<u>353,683</u>
Total changes in cash and investments	(8,551,453)
Cash and investment balance at January 1, 2018	<u>228,649,786</u>
Cash and investment balance at December 31, 2018	<u><u>\$ 220,098,333</u></u>

See accompanying notes to basic financial statements.

(THIS PAGE LEFT BLANK INTENTIONALLY)

ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
NOTES TO BASIC FINANCIAL STATEMENT
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Arizona Property and Casualty Insurance Guaranty Fund (Fund), a division of the Arizona Department of Insurance, was established by the Arizona legislature in 1977 to provide funds for the payment of contractual obligations under certain property and casualty insurance contracts of insolvent insurance companies in accordance with *Arizona Revised Statutes, Title 20, Chapter 3, Article 6*.

The Fund is managed by an eleven-member board of directors appointed by the Governor of the State of Arizona and is under the immediate supervision of an executive director. In order to provide the monies necessary to carry out the powers and duties of the Fund, the board of directors determines the amount and timing of assessments to be made upon member insurers. Member insurers are those individuals or companies authorized to transact the covered types of insurance in the State of Arizona.

Basis of Accounting – Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statement. The financial statement is presented on the modified cash basis of accounting, which is a special purpose framework of accounting. Under the modified cash basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Changes in the fair value of investments and reductions in premiums/discounts relating to investments held by the Fund are also included. In addition, all items including the acquisition of furniture and equipment are expensed as paid and receivables, prepaids, payables and accrued expenses are not reported. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles.

Cash and Investments – Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the Fund. Investments are carried at fair value. Changes in fair value and amortization of premiums/discounts relating to investments held by the Fund are reported as changes in investment balances.

Income Taxes – The Fund operates as a tax-exempt organization for federal and state income tax purposes under Section 115 (1) of the Internal Revenue Code; however, a determination letter has not been requested from the Internal Revenue Service.

Subsequent Events – The Fund has reviewed all subsequent events through June 20, 2019, which was the date the financial statements were available to be issued.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
NOTES TO BASIC FINANCIAL STATEMENT
DECEMBER 31, 2018**

NOTE 2 – CASH AND INVESTMENTS

The board of directors, pursuant to Article 4E of the plan of operation, authorizes the Fund to invest monies in obligations issued or guaranteed by the United States or any of its senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as share, checking, saving accounts or certificates of deposits.

Custodial Credit Risk – Cash – Custodial credit risk is the risk that in the event of bank failure, the Fund's deposits may not be returned to the Fund. The Fund does not have a deposit policy for custodial credit risk. At December 31, 2018, the carrying amount of the Fund's deposits was \$721,136 and the bank balance was \$953,096. At December 31, 2018, \$250,000 was covered by federal depository insurance and \$703,096 was uninsured and uncollateralized. At December 31, 2018, the Fund had \$77,623 on deposit with the Arizona State Treasurer.

Investments – The Fund's investments at December 31, 2018 were as follows:

U. S. Government money market mutual funds	\$	187,240
U. S. Treasury bills		203,877,066
U. S. Government agency securities		<u>15,235,268</u>
		<u>\$ 219,299,574</u>

Credit Risk-Investments - As of December 31, 2018, the Fund's investments were rated as follows pursuant to Standard & Poor's rating system:

Rating	Fair Value	Percentage of Holdings
AAA	\$ 219,299,574	100%

The Fund has no formal policy regarding credit risk.

Concentration of Credit Risk-Investments – The Fund's investment policy requires investments to be no more than 5% or \$5,000,000, whichever is less, invested with any one issuer, with the exception of the United States Government and its agencies or instrumentalities.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund has no formal policy regarding custodial credit risk.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
NOTES TO BASIC FINANCIAL STATEMENT
DECEMBER 31, 2018**

NOTE 2 – CASH AND INVESTMENTS (CONT'D)

Interest Rate Risk – The Fund's investment policy for Auto and Other accounts requires an average duration to not exceed 1 year and a maximum final maturity on an individual investment shall not exceed 4 years. For workers' compensation accounts, the policy requires an average duration not to exceed 2 years and a maximum final maturity on an individual investment not to exceed 4 years. At December 31, 2018, the Fund had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity in Months
U. S. Treasury bills	\$ 203,877,066	25.4
U. S. Government agency securities	15,235,268	35.4
	\$ 219,112,334	

NOTE 3 – FUND BALANCES

The Fund maintains four restricted accounts for purposes of reporting cash receipts and disbursements. In accordance with Arizona State statutes, except for the workers' compensation account, the Fund may transfer amounts between accounts. The balances for each account as of December 31, 2018 are as follows:

Automobile insurance account	\$ 19,016,628
Workers' compensation account	187,728,744
Other insurance account	10,814,574
Administrative account	2,538,387
	\$ 220,098,333

NOTE 4 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease – The Fund rents office space from the State of Arizona, Department of Insurance. Although the Fund has no formal lease agreement related to this office space, the Fund may not relocate without prior authorization from the State. Rent expense on this office space for 2018 was \$11,208.

Litigation – In the course of performing its statutory duties with respect to impaired insurers, the Fund is subject to litigation. It is the opinion of management that such matters will not have a significant or adverse impact on the Fund's financial position.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
NOTES TO BASIC FINANCIAL STATEMENT
DECEMBER 31, 2018**

NOTE 4 – COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

Claims Processing – In December 2017, the Fund entered into a claims processing agreement with Integrion Group, Inc. (Integrion) through December 31, 2018, renewable annually through December 31, 2022. Under the agreement, the Fund pays Integrion a monthly administrative fee, calculated on a per claims basis dependent on the type of claim processed with fees that range from \$40-\$65 per claim. Estimated fees under the agreement, through December 31, 2019, are \$585,000.

NOTE 5 – RETIREMENT PLAN

Plan Description – Fund employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
NOTES TO BASIC FINANCIAL STATEMENT
DECEMBER 31, 2018**

NOTE 5 – RETIREMENT PLAN (CONT'D)

Benefits Provided (Cont'd)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the Fund was required by statute to contribute at the actuarially determined rate of 11.50 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED DECEMBER 31, 2018**

Staff salaries and employee related expenses	\$ 238,620
Workers' compensation claims processing	722,473
Dues and subscriptions	81,021
Dues and subscriptions - WC	8,695
Legal services	34,226
Claims processing computer program expense	36,000
Rent	11,208
Financial audit service	6,010
Investment fees	26,919
Investment fees - WC	163,881
Telephone	5,889
Office supplies and expense	4,161
Banking service fees	6,906
Travel	1,924
Conferences and seminars	2,852
Postage	515
Board members expense	2,248
	<hr/>
	<u>\$ 1,353,548</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)