STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX 85007

GRANT WOODS
ATTORNEY GENERAL

MAIN PHONE: 542-5025
TELECOPIER: 542-4085

April 2, 1991

The Honorable David S. Ellsworth
Yuma County Attorney
P. O. Box 1048
Yuma, Arizona 85366-8048

Re: I91-016 (R90-169)

Dear Mr. Ellsworth:

Pursuant to A.R.S. § 15-253(B), we have reviewed your December 17, 1990, opinion to Superintendent S. R. Grande, Antelope Union High School District Superintendent. We concur with your conclusion that school district governing boards must comply with the school district procurement rules, A.A.C. R7-2-1001 to -1195, before entering into an agreement to purchase property and liability insurance as a member of a risk-pool trust or as a participant in a joint purchase directly from an insurer pursuant to A.R.S. §§ 11-952.01(A) and 15-382(B).

Sincerely,

Grant Woods
Attorney General

GW/LXP/pnw

Attorney General
1275 WEST WASHINGTON
Phoenix, Arizona 85007
Robert K. Corbin

December 21, 1990

The Honorable David S. Ellsworth
County Attorney
P.O. Box 1048
Yuma, Arizona 85366-8048

Dear Mr. Ellsworth:

We have received your recent request for an Attorney General's Opinion on December 20, 1990 and have assigned it number R90-169. If you have any questions about the status of your request it would be very helpful if you would refer to this number.

Our response is presently under consideration, and we will strive to have it to you in a reasonable time.

Sincerely,

STEVEN J. TWIST
Chief Assistant
Attorney General

SJT:bl

OFFICE OF THE COUNTY ATTORNEY

YUMA COUNTY · STATE OF ARIZONA

168 S. Second Avenue
Yuma, Arizona 85364
Criminal Division
329-2260

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Civil Division
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David S. Ellsworth
COUNTY ATTORNEY

Philip L. Hall
CHIEF DEPUTY

John K. White
CHIEF CIVIL DEPUTY

December 17, 1990

S. R. Grande
Superintendent
Antelope Union High School
9168 S. Ave. 36E
Wellton, Arizona 85356

Re: Request for Opinion July 27, 1990

Dear Superintendent Grande:

You have requested our opinion on the question of school district responsibility regarding "bidding" as it concerns the Arizona School Risk Retention Trust. Specifically, you ask:

1. Are public school districts exempt from the education procurement code as respect Property and Casualty Insurance when they are members of the Arizona School Risk Retention Trust (ASRRT)?

2. If a school district is currently not a member of the Trust, must they go into the bidding process if they want to switch their insurance to the Trust?

3. Once a school district is a member of the ASRRT is it then exempt from the procurement code, and therefore do not have to ever again rebid their insurance program as long as they remain in the Trust?

<u>OPINION</u>

School districts are not exempt from the school district procurement code for purposes of participating in ASRRT. School districts are required to comply with A.R.S. Sec. 15-213 and its rules A.C.R.R. R7-2-1001, et seq. (school district procurement code) in their insurance procurement decisions under A.R.S. Sec. 15-382, because there is no statutory authority, express or implied, to do otherwise. Thus, the answer to question 1. is No; the answer to question 2. is Yes; and the answer to question 3. is No.

ANALYSIS

On November 19, 1990 our office advised you that the question looked to be one of statewide concern and that the State Attorney General should be approached for an opinion. His office reviewed your request and deferred to our office for our formal opinion prior to his review.

A. GENERAL AUTHORITY FOR SCHOOL DISTRICT INSURANCE/RISK POOLS AND TRUSTS

School district governing boards are authorized to "insure school property of the district" A.R.S. Sec. 15-341.A.8.

School district governing boards are authorized to provide for self-insurance programs. A.R.S. Sec. 15-382. The school district governing board may, pursuant to Sec. 15-382.B.---

> 1. Enter into intergovernmental agreements or contracts pursuant to title 11, chapter 7, article 3 [11-951 et seq.] or cooperative procurement agreements pursuant to rules adopted under Sec. 15-213 providing for a self-insurance program by districts or the joint purchase of insurance.
>
> 2. Separately contract with a trustee or board of trustees which provides a common self-insurance program or programs with pooled funds and risks to more than one district.
>
> 3. Enter into intergovernmental agreements or contracts to participate in insurance programs or risk retention pools established by the department of administration pursuant to Sec. 41-621.

B. PROCUREMENT PRACTICES FOR SCHOOL DISTRICTS

The procurement practices for all school districts in this state are governed by A.R.S. Sec. 15-213 and the rules adopted by the state board under A.R.S. Sec. 15-213. The rules adopted by the state board are found in A.C.R.R. R7-2-1001 through R7-2-1195. Consequently, unless a specific exemption from the school district procurement rules exists in the rules or state statutes for an expenditure of public monies, the procurement rules apply. Compliance by school districts with their procurement code may be compelled by the attorney general. A.R.S. Sec. 15-213.E.

C. SEC. 15-382 INSURANCE PROCUREMENT AUTHORITY

1. SEC. 11-952.01 INTERGOVERNMENTAL PROCEDURES

By virtue of specific authority under A.R.S. Sec. 15-382.B.1., the intergovernmental provisions of title 11, chapter 7, article 3, (A.R.S. Sec. 11-952.01.), authorize school districts to enter into contracts or agreements for joint purchasing of insurance or to pool retention risks for property and liability losses. School districts may also jointly form a nonprofit corporation or enter into a trust agreement to carry out the provisions of [11-952.01] in their behalf directly or by contract with a private party.

A.R.S. Sec. 11-952.01.E. specifically tells us that the provisions of title 41, Chapter 23 (Sec. 41-2501 et seq.---the state procurement code) shall not "apply to the procurement of insurance, or to the procurement of the services provided for in subsection H, paragraph 8 of [the] section, by any pool established pursuant to this section." Thus, Sec. 11-952.01.E. exempts any public entity subject to the state procurement code, (A.R.S. Sec. 41-2501), from the provisions of the state procurement code as regards procurement of insurance, by any pool established under Sec. 11-952.01. School districts, specifically under A.R.S. Sec. 15-213---and like many other public entities---are simply not subject to the state procurement code and so the exemption from the state procurement code under 11-952.01.E does not apply to them---even for purchase through a pool. See generally, Attorney General Opinion I89-098.

It is noteworthy that the exemption specifically directs itself to the procurement of insurance by a pool and not to any other "joint activity" such as purchasing of insurance or the contracting with a trust for the provision of insurance---meaning that procurement rules (state or otherwise) are not exempted in any event in the non-pool activity contemplated by Sec. 11-952.01.

A.R.S. Sec. 11-954 makes it clear that the authority granted under A.R.S. Sec. 11-952.01 is

> "cumulative and supplemental and nothing contained in . . .[11-952.01] shall be so construed as to authorize any public agency to exercise any power or engage in any business or enterprise that such public agency is not authorized to exercise or engage in pursuant to other provisions of law."

Thus, in exercising authority under A.R.S. Secs. 15-382.B.1. and 11-952.01., a school district is specifically told by A.R.S. Sec. 11-954 that it gains no new power or authority and so must look to A.R.S. Sec. 15-213 and A.C.R.R. R7-2-1001 et seq. to the extent it seeks guidance in its procurement practices regarding joint purchase of insurance and pooling of risks.

Together with the intergovernmental agreement authority found in A.R.S. Sec. 15-382.B1., is found an alternate method: the direct utilization of the school district cooperative procurement agreement rules of Sec. 15-213 (A.C.R.R. R7-2-1191 et seq.) in its self-insurance or joint purchase of insurance decisions---which merely directs us to A.R.S. 11-951, et seq. Since the procurement decision under either method requires compliance with the procurement rules, we make no distinction between them in the analysis.

In examining the school district procurement rules of (Sec. 15-213) A.C.R.R. R7-2-1001 et seq., we learn that---

1. The rules apply to every expenditure of public monies as specified in A.R.S. Sec. 15-213(A) for all materials or services which exceed $10,000.00 in total cost. A.C.R.R. R7-2-1002.A.

2. Competitive sealed bidding, unless otherwise authorized by law, is required to be used, except when---

    i. competitive sealed proposals (A.C.R.R. R7-2-1041) are used; and,
    ii. the professional services of an architect, engineer, land surveyor, assayer, geologist, and landscape architect, (A.C.R.R. R7-2-1117) are used.

3. A school district may enter into a cooperative purchasing agreement for the procurement of materials or services which is exempt from A.R.S. Sec. 11-952, Subsections (D), (E), and (F)---submittal to attorney and filing provisions.

In examining the school district procurement rules, we do not find any specific reference to exemption from those rules as regards insurance or risk retention. We do find in the rules, however, that if the expenditure for the materials or services exceeds $10,000.00, then the rules apply.

Although insurance is not defined in the seventy-seven (77) definitions set out in R7-2-1001 of the procurement code, definition 45, tells us that "materials" means "all property, including equipment, supplies, printing, insurance and leases of property," and definition 68 tells us that "services" means "the furnishing of labor, time or effort by a contractor which does not involve the delivery of a specific end product other than required reports and performance. . ." (which appears to describe insurance "contracts" in general). Thus insurance, whether denominated as "materials" or "services" is covered in the procurement code.

2. PARTICIPATION IN RISK POOL (41-621) PROGRAMS ESTABLISHED BY DOA

A.R.S. Sec. 15-382.B.3 provides that a school district may enter into intergovernmental agreements to participate in insurance programs or risk retention pools established by the department of administration pursuant to Sec. 41-621. To the extent relevant for our purpose, Sec. 41-621 covers the subject of DOA's exemption from the state procurement code: Sec. 41-621. E. provides that the---

> "provisions of chapter 23 of this title [Sec. 41-2501---state procurement code] shall not apply to the department of administration's procurement of insurance to cover losses arising out of state property or liability claims prescribed in subsections A and C or excess loss insurance for the state's workers' compensation liability for individual or aggregate claims, or both, in such amounts and at such primary retention levels as the department of administration deems in the best interest of the state."

The rules governing the Department of Administration's purchase of insurance, A.C.R.R. R2-10-304 reflect the statute: "The purchase of insurance is exempt from the state procurement code as outlined in A.R.S. Sec. 41-621.D." (Should now read "E.").

Thus, it is only the department of administration which is exempt from the state procurement rules. To the extent that a school district participates in a insurance pool established by the state department of administration, it still must look to its own procurement rules as set forth in A.R.S. Sec. 15-213 (A.C.R.R. R7-2-1001 et seq.) because it has no statutory authority, express or implied, to do otherwise. (See analysis of school district procurement code above and Attorney General Opinion I89-098, as well as the "authority" analysis infra.)

3. TRUSTEE POOLED FUND METHOD

A.R.S. Sec. 15-382.B.2. provides that a school district may contract with a trustee or board of trustees which provides a common self-insurance program or programs with pooled funds and risks to more than one district. Here again, there is no statutory exemption from the school district procurement code for a school district's insurance decisions: A.C.R.R. R7-2-1001 et seq. must be looked to for guidance in contracting with a "trust" under 15-382.B.2.

D. ASRRT

ASRRT is the acronym for Arizona School Risk Retention Trust. In order to determine to what extent the school district procurement rules would apply to the legal relationship between Antelope and ASRRT, as set forth in your request for opinion, we needed to understand the "trust" relationship between ASRRT and Antelope.

We obtained from the State Department of Insurance a copy of an audit of ASRRT, ATTACHED AS EXHIBIT A, which details the workings of ASRRT and a copy of the current Annual Planning Document (coverage offered by ASRRT), ATTACHED AS EXHIBIT B, and a copy of the 1988 Certificate of Insurance, (we were unable to obtain a copy of the 1990 certificate---which is presumably similiar except for coverage amounts), ATTACHED AS EXHIBIT C; and a copy of the 1990/91 IGA for "trust" participation, ATTACHED AS EXHIBIT D: all of which were reviewed as part of the specific analysis of your questions.

In brief, ASRRT appears to be a risk-pool-entity initially established by DOA in 1986 which is now managed by a private entity, MULLEN AND ASSOCIATES, INC., and operated under the control of the Department of Administration--Risk Management Division. (Audit--EXHIBIT A). Participation in ASRRT is through IGA with the State of Arizona. (IGA--EXHIBIT D) Although there is a Certificate of Insurance naming ASRRT as a company affording coverage, (COI, EXHIBIT C), ASRRT is not a title 20, A.R.S. insurance company in the commonly understood sense, nor was it intended to be, given the fact that DOA is exempt under A.R.S. Sec.42-621.E. from the "UNAUTHORIZED INSURERS" article, Sec. 20-401, et seq. Nonetheless, it is a provider of insurance coverage which holds itself out as competing with private insurers for the school insurance dollar. (Planning Document--EXHIBIT B).

There is nothing contained in A.R.S. Secs. 41-621 et seq., 11-951 et seq., or 15-382 which would indicate that ASRRT has been legislatively granted a statutorly privileged position of not having to compete with private insurers---that is, there is nothing in the statutory framework which would authorize school districts to choose ASRRT, or indeed any other type of risk-pool or direct insurer, private or governmental, as their insurer without compliance with the school district procurement code.

D. SCHOOL DISTRICT AUTHORITY---EXPRESS AND IMPLIED---AND SCHOOL DISTRICT DUTY IN THE EXPENDITURE OF PUBLIC FUNDS.

Throughout the foregoing analysis the statutory construction doctrine of expressio unius est exclusivo alterius has been used, without specific reference, in pointing out that the statutory specification of exemption from the state procurement code manifested the legislative intent that no exceptions other than those specified were authorized. That is, since there was no specific exemption for school districts from their own procurement code, they had to comply with that code. See Attorney General Opinion I86-116, and its referenced case, Pima County v. Heinfeld, 134 Ariz. 133, 134, 654 P.2d 281, 282 (1982).

Consistent with that doctrine of statutory construction are the oft-cited bodies of case law---and numerous Attorney General and County Attorney Opinions---which simply provide that school districts and their governing boards may exercise, in the manner and within the limits provided by statute, only such power and authority, express or implied, as is granted by statute. See generally, School District no. 69 of Maricopa County v. Altherr, 10 Ariz.App. 333, 458 P.2d 537 (1969); Campbell v. Harris, 131 Ariz. 109, 638 P.2d 1355 (App. 1981).

Given the fact that your request for opinion involves a State controlled insurance risk pool, ASRRT, with over eighty (80) participating school districts involved state-wide, it is important and helpful to review what the Arizona Supreme Court has told us about the meaning of "express" and "implied" statutory authority; and, what the Arizona Supreme Court has told us about the "duty" owed by a public entity to the public in its expenditure of public funds.

1. Express and implied: Associated Dairy Products v. Page, 68 Ariz. 393, 395, 398, (1949) [Emphasis added]

The Arizona Supreme Court in a fundamental case directed to a county board of superivsor's authority, analyzed the meaning of expressed and implied powers:

> THE BOARDS OF SUPERVISORS OF THE VARIOUS COUNTIES OF THE STATE HAVE ONLY SUCH POWERS AS HAVE BEEN EXPRESSLY OR BY NECESSARY IMPLICATION, DELEGATED TO THEM BY THE STATE LEGISLATURE. [CITES

> OMITTED]. IMPLIED POWERS DO NOT EXIST INDEPENDENTLY OF THE GRANT OF EXPRESS POWERS AND THE ONLY FUNCTION OF AN IMPLIED POWER IS TO AID IN CARRYING INTO EFFECT A POWER EXPRESSLY GRANTED. THEREFORE, UNLESS THERE HAS BEEN AN EXPRESS GRANT OF POWER BY THE LEGISLATURE TO THE BOARD TO ENACT THE ORDINANCE HERE INVOLVED, IT MUST BE HELD TO BE INVALID, REGARDLESS OF WHETHER THE SUBJECT OF SAID ORDINANCE IS OF LOCAL OR STATEWIDE CONCERN. Page, at 395.

The Page Court goes on to say at page 398:

> BY THE TERMS 'EXPRESSLY EMPOWER' AND 'EXPRESS POWER' AS USED IN THE LANGUAGE OF THE COURT IN THE CASE OF [CITE OMITTED], IS MEANT THAT AUTHORITY WHICH CONFERS POWERS TO DO A PARTICULAR THING SET FORTH AND DECLARED EXACTLY, PLAINLY AND DIRECTLY WITH WELL DEFINED LIMITS. 'AN EXPRESS AUTHORITY IS ONE GIVEN IN DIRECT TERMS, DEFINITELY AND EXPLICITLY, AND NOT LEFT TO INFERENCE OR TO IMPLICATION, AS DISTINGUISHED FROM AUTHORITY WHICH IS GENERAL, IMPLIED OR NOT DIRECTLY STATED OR GIVEN.' [CITE OMITTED].

Since there is no express authority for a school district to to not comply with its procurement code, there is simply no implicit authority for a school district to not comply. That is, a school district cannot by "inference" or "implication" obtain exemption from the school district procurement code by virtue of contracting with an entity such as DOA which may itself be exempt from its procurement code for insurance purposes. Further, since Arizona's laws requiring competitive bidding are to be strictly construed, Attorney General Opinion, I82-010 and its referenced case, Secrist v. Diedrich, 6 Ariz.App. 102, 430 P.2d 448 (1967), we immediately see that the Arizona Legislature simply did not grant school districts any "exemption" from the school district procurement code for the procurement of insurance.

2. Expenditure of public funds duty: Hertz Drive-Ur-Self System v. Tucson Airport Authority, 81 Ariz. 80, 299 P.2d 1071 (1956).

The Arizona Supreme Court has directed that all public entities owe a duty to the public to obtain the best results possible in the expenditure of public funds. Although the Court made its ruling in the context of a public enitity's duty in the absence of competitive bidding statutes, its language provides a powerful incentive for a public entity to comply with its competitive bidding statutes. The Court tells us, 81 Ariz. at 85,

> That bids were not required, and that they were not officially called for and that such a contract might be based upon negotiations does not necessarily mean that a board acting as an arm of the State could at its uncontrolled pleasure arbitrarily fix upon terms. . . . . . disadvantageous to the public. The board has no such absolute rights in executing its public powers. Its right is measured by its duty, which is to act in the public interest, to be fair, honest, prudent and to exercise wise discretion in the awarding of its contracts.

If a board's duty in the absence of competitive bidding statutes demands the highest fiduciary obligations, a board's duty in the presence of competitive bidding statutes must demand at a minimum, strict compliance with the bidding statutes. See, Secrist v. Diedrich, 6 Ariz. App. 102, 430 P.2d 448 (1967).

CONCLUSION

School district governing boards must comply with the school district procurement code in their procurement of insurance under A.R.S. Sec. 15-382, even when dealing with the state controlled risk pool, ASRRT, because there exists no statutory authority to do otherwise.

A copy of this opinion is being sent to the Arizona State Attorney General for his review.

Sincerely yours,

John K. White

John K. White
Deputy County Attorney

JKW/jkw

AUDIT

EXHIBIT A

ARIZ. DEPT. OF INS.
FILED
APR 09 1990
ASSISTANT DIRECTOR
CHIEF EXAMINER

REPORT OF EXAMINATION
of the
ARIZONA SCHOOL RISK RETENTION TRUST

(A Public Agency Risk Retention Pool)

PHOENIX, ARIZONA

as of
June 30, 1989

BY THE

DEPARTMENT OF INSURANCE

STATE OF ARIZONA

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STATE OF ARIZONA
DEPARTMENT OF INSURANCE

ROSE MOFFORD
Governor

ABACUS TOWERS
3030 NORTH 3RD STREET, SUITE 1100
PHOENIX, ARIZONA 85012

SUSAN GALLINGER
Director of Insurance

Phoenix, Arizona
January 24, 1990

Honorable Susan Gallinger
Director of Insurance
State of Arizona
3030 North Third Street, Suite #1100
Phoenix, Arizona 85012

Dear Ms. Gallinger:

Pursuant to your instructions and in conformity with the provisions of A.R.S. § 11-952.01 along with the Rules of the State of Arizona, an examination has been made of the administrative affairs, books, records and financial condition of the

Arizona School Risk Retention Trust
4041 North Central Avenue, Suite 1700
Phoenix, Arizona 85013

hereinafter referred to as "the Trust", at the office of Johnson & Higgins of Arizona, Inc., the contracted administrator for "the Trust."

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from July 1, 1986, the date of inception, to June 30, 1989, with a review of those subsequent transactions as deemed necessary. This examination was conducted on a statutory accounting basis in accordance with generally accepted examination procedures.

Due to the lack of supporting accounting detail available for the first two (2) years of the Trust's operations, it was necessary for the Examiner to place total reliance on the audited financial statements as prepared by Price Waterhouse, Certified Public Accountants, as reflecting accurately the Company's financial condition at June 30, 1987 and June 30, 1988. Substantial reliance was also placed on the actuarial review of the Trust's June 30, 1989 reserves as prepared by Walker and Associates, actuarial consultants to the Arizona Department of Insurance, in conjunction with this examination. (Attached as Exhibit A).

A trial balance was prepared for the 1988 - 1989 fiscal year which was traced into the audited financial statements and the general ledger maintained for that year. Verification and valuation of assets, determination of liabilities and reserves and an analysis and review of such accounts and records deemed necessary to the examination were also performed for this period.

HISTORY

The Arizona School Risk Retention Trust was enabled by the Arizona State Legislature on May 21, 1986. The Trust was formed with the approval of the Joint Legislative Budget Committee on June 15, 1986 and began to provide liability coverage for member school districts effective July 1, 1986.

The Trust was established to provide property and liability insurance coverage to school districts as an alternative to the individual districts purchasing conventional insurance. As was discussed with Department of Insurance and Trust Officials this was done in response to the "hard market" previously experienced that saw many districts unable to obtain conventional insurance at a reasonable rate. The theoretical objective of the Trust is to provide coverages to the districts at a budgetable rate that remains substantially consistent regardless of the market.

The Trust has grown from having six (6) school districts as members in their first year of operation to having seventy-one (71) school districts that were members of the Trust at June 30, 1989. Currently more than eighty (80) school districts are members. These districts represent total average daily attendance (ADM) in excess of 100,000 and property values that approach $1 billion.

CAPITALIZATION

The Trust is capitalized solely by the premium collected from the member school districts. No initial capitalization was provided or required.

MANAGEMENT AND CONTROL

The Trust operates under the control of the State of Arizona Department of Administration - Risk Management Division. Initially, the Trust was co-administered by Southwest Risk Services, Inc. (Southwest) and Johnson & Higgins. Southwest provided accounting, claim management, and certain policyholder services and Johnson & Higgins provided marketing, underwriting, excess insurance placement and loss control services. On February 1, 1988, Johnson & Higgins became the sole manager of the Trust. Fees paid by the Trust for management services during the period under examination were as follows:

Year	Amount	% of Premium
86 - 87	$ 52,700	14%
87 - 88	44,500	14%
88 - 89	366,000	9.5%

In addition to the management fee received in 1988 -1989, Johnson & Higgins also received approximately $130,000 in commissions for serving as the authorized insurance representative for certain school district participants and $44,000 for placing certain excess coverages for the Trust on a direct basis. Amounts paid to Johnson & Higgins by the Trust represents approximately thirteen percent (13%) of the written premium in 1988 - 1989.

Trust Board Members

A.R.S. § 11-952.01(G) requires each pool to be operated by a Board of Trustees consisting of at least five (5) persons who are elected officials or employees of public entities within the State.

Those persons acting as trustees at June 30, 1989, are as follows:

Trustee	Occupation
Fred Cuthbertson 1818 W. Adams Phoenix, AZ 85007	Assistant Director, State Department of Administration
Joan Davis-Carpenter 146 South Granite Prescott, AZ 86301	Business Manager - Prescott Unified Dist. No. 1
Jim Lockwood P.O. Box 879 Apache Junction, AZ 85220	Business Manager - Apache Junction Unified Dist. No. 43
* Joel Wirth 1525 W. Frye Road Chandler, AZ 85224	Business Manager - Chandler Unified District No. 80
Andrew J. Dail P.O. Box 67 Roll, AZ 85347	Superintendent - Mohawk Valley Elementary District
** Dr. Cheryl Crates 5601 N. 16th St. Phoenix, AZ 85016	Assistant Superintendent - Business Services - Madison Elementary Dist. No. 38
Bill French P.O. Box 57 Cottonwood, AZ 86326	Business Manager - Cottonwood-Oak Creek Elementary
Bob Medlyn P.O. Box 1237 Douglas, AZ 85607	Business Manager - Douglas School Dist. No. 27

Regular meetings of the Board are held on the third Friday of each month at the time stated in the notice. The annual meeting is held on the third Friday in July.

* Chairman of the Board of Trustees

**Vice Chairperson of the Board of Trustees

Committees

The Bylaws provide that the Board may designate one (1) or more committees. Review of the minutes of the Board of Trustees indicates that an Executive Committee and a Finance Committee have been formed. Minutes of any meetings held were not evident.

Contracts

The following professional organizations provide services to the Arizona School Risk Retention Trust:

Johnson & Higgins	--	Administrative management, underwriting, marketing, accounting, brokering and claims management
Meyer, Henricks, Victor, Osborn & Maledon	--	General counsel
Price Waterhouse	--	Outside auditor
GAB Business Service	--	Claims investigation and adjudication
Jones, Skelton and Hochuli	--	Liability claims defense
Coopers and Lybrand	--	Actuarial review
Arizona State Treasurer	--	Banking services

All of the above, with the exception of the Arizona State Treasurer, operate under the terms and conditions of professional service contracts with the Trust.

CORPORATE RECORDS

Bylaws

A review of the minutes of meetings of the Board of Trustees indicates that there was approval given to change the meeting day of the Board prescribed in the Bylaws from the third Monday in each month to the third Friday. The copy of the Bylaws provided to the Examiner did not reflect this change.

Minutes

All minutes of meetings of the Board of Trustees were reviewed for the period under examination. Meetings held appeared to be in compliance with the open meeting laws and the minutes of such appear to reflect accurately the actions and desires of the Board of Trustees. Minutes of committee meetings were not evident.

PLAN OF OPERATION

The Arizona School Risk Retention Trust is organized under the laws of Arizona for the purpose of providing property and liability insurance coverage to school districts within the State as an alternative to conventional insurance. Individual school districts (participants) are enrolled in the Trust upon the execution of an Intergovernmental Agreement (IGA) with the Trust.

The IGA describes in detail the coverages provided by the Trust and the specific terms and conditions under which the Trust operates. The IGA executed with each district is standard as to form and differs only as to the premium charged to each district, based on the coverages provided, and the district's chosen deductible.

Coverages Provided

The Trust makes the following coverages available to those districts that become enrolled under the IGA:

1) General Public, Automobile and Professional Liability

2) Excess Liability

3) All Risk Property

4) Automobile Physical Damage

5) Boiler and Machinery

6) Faithful Performance and Employee Dishonesty

The Trust limits its exposure on these coverages through the purchase of excess insurance from commercial carriers. In August, 1987, the Trust was able to obtain property coverage only. Liability coverage was not available due to uncertainty regarding the number of districts expected to participate in the Trust. In January, 1988, the Trust obtained property and general liability coverage in a combined policy. As the policy duplicated many of the coverages provided in the original property policy and some coverages provided in the IGA remained uncovered, the original property policy was converted to an all-risk difference in conditions contract which supplemented the combined policy. Currently the Trust has the following excess coverages in force:

Carrier	Coverage	Amount
Scottsdale Insurance Company	Excess General Public, Automobile and Professional liability	$4,750,000 excess of $250,000 self insured retention (SIR)
Lexington Insurance Company	Excess Liability	$5,000,000 excess $5,000,000
National Union Fire Insurance Company of Pittsburgh	Property Insurance	$100,000,000 after a deductible of $50,000 per occurrence, $250,000 annual aggregate
	Auto Physical Damage	$750,000 per occurrence/annual aggregate, $100,000 deductible
Kemper Group/ Lumberman's Mutual Casualty Company	Boiler and Machinery	$10,000,000 subject to sublimits and a deductible of $1,000 except as respects consequential damage which is subject to 10% of the total amount of loss subject to a minimum of $1,000 deductible
	Employee Dishonesty	$100,000 per loss $1,000 SIR

All of the above mentioned carriers are admitted in the State of Arizona with the exception of Lexington Insurance Company (Lexington), a non-admitted/approved (surplus lines) insurer in Arizona. The Trust remains contingently liable for any losses should Lexington be unable to fulfill their contractual obligation.

Rates

The rates charged to the participants are determined by Johnson & Higgins, based on four (4) rating components as follows:

Base Rate	--	Premium charged by the excess insurance carrier
Absorption Fund	--	A rate per ADM and property value to establish an amount to cover the SIR and future losses
Agents Commission	--	8% of contribution
Administrative Fees	--	13% of contribution

The IGA requires that each participants' contribution be determined by the Trust actuary based on criteria and rating assumptions uniformly applied to each participant. From the information provided to the Examiner, it could not be determined how the rate components for each district were obtained, or to what extent, if any, the Trust actuaries participated in rate determination. It was also noted by the Examiner, that underwriting factors such as location and the loss experience of the individual districts were not available to the administrator for consideration in the rating computation. Based on the Examiner's review, it does not appear that the rating requirements outlined in the IGA were being met. The actuarial report received from Walker and Associates (Exhibit A) also indicates that the rates charged during the 1988 - 1989 year may have been insufficient to achieve an adequate IBNR Reserve.

Compliance With Arizona Revised Statutes

The Trust appears to be in substantial compliance with A.R.S. § 11-951.01 for the time period covered by this examination except as indicated below:

1) Copies of the annual certified audits were not filed with the Director of Insurance in a timely manner.

2) An appropriate actuarial evaluation of the claim reserves was not obtained.

ACCOUNTS AND RECORDS

The accounts and records pertinent to the Trust are compiled by several different entities, both within and outside of the State. The general ledger is machine produced at the Houston, Texas branch of Johnson & Higgins from summary reports provided to them by their Phoenix branch. The Phoenix branch generates premium billing, maintains all of the detailed accounting records, and originates the flow of transactions through the various state agencies.

Premium checks and fund disbursement requests are forwarded by the Phoenix branch of Johnson & Higgins to the State of Arizona Department of Administration (DOA) who required no documentation supporting the transaction attached (see note). The DOA sends the information to the State Treasurer's office, who enters the information into the state accounting system, deposits receipts into the Trust account, and remits the disbursement requests to the general accounting office for warrant generation. Completed warrants are sent back to the DOA who forwards them to the Phoenix branch of Johnson & Higgins for remittance to vendors, claimants, etc. On a monthly basis, the Treasurer's office generates a summary of all receipts and disbursements made to the account by the Trust in a given month. This summary is also forwarded to the Phoenix branch.

Review of the general accounting system revealed several shortcomings involving the accounts and records. Receipts from school districts were not being logged in when received; detail supporting the validity of disbursement transactions was not required by the DOA; there were several inconsistencies involving the recording of transactions; timing differences between accounting and actual fund transfers created understatements in the Trust's cash balance; and, in some instances, the same task was completed by two (2) different entities.

Centralization of the accounting function would allow the Trust to implement more effective procedures and create a better understanding of the accounting system in general.

Supporting accounting detail for the first two (2) years of the Trusts operations was insufficient for examination. Total reliance has been placed on the audited financial statements as prepared by Price Waterhouse, certified public accountants, as reflecting accurately the Company's financial condition through the first two (2) years of the Trusts operations.

Examination of the Trust's reserve for losses and loss expenses was performed by Walker and Associates, actuarial consultants to the Arizona Department of Insurance, for the year ended June 30, 1989.

Note: During the examination process, the procedure was changed at the DOA to require supporting detail on all requests for disbursement from the fund prior to submission of the request to the State Treasurer's office.

FINANCIAL STATEMENT

The firm of Price Waterhouse, Certified Public Accountants, was retained by the Trust for the preparation of the required certified financial statements as of June 30, 1989.

The following statements of Revenues and Expenses for the years ended June 30, 1988 and June 30, 1989, and the Balance Sheets at June 30, 1988 and 1989, reflect the operations of the Arizona School Risk Retention Trust on a statutory basis. These statements are presented in Annual Statement Form with examination adjustments to the balances indicated by the Trust shown for 1989.

ARIZONA SCHOOL RISK RETENTION TRUST

Balance Sheet

June 30, 1989

	Balance Per Trust	Examination Adjustments	Balance Per Examination 6-30-89	Balance At 6-30-88
ASSETS				
Cash.....................	$1,010,036	$ - 0 -	$1,010,036	$ 374,075
Accrued interest income..	12,629	- 0 -	12,629	1,245
Premium receivable.......	4,766	- 0 -	4,766	- 0 -
Total Assets	$1,027,431	$ - 0 -	$1,027,431	$ 375,320
LIABILITIES AND FUND BALANCE				
Liabilities:				
Reserve for losses and loss expense..........	$ 601,548	$ 478,275	$1,079,823	$ 204,981
Unearned premium.......	307,199	- 0 -	307,199	178,607
Other liabilities......	31,436	- 0 -	31,436	8,139
Total Liabilities	$ 940,183	$ 478,275	$1,418,458	$ 391,727
Fund Balance (Deficit)..	87,248	(478,275)	(391,027)	(16,407)
Totals	$1,027,431	$ - 0 -	$1,027,431	$ 375,320

Note: The Trust balance indicated above represents the balances indicated in the Board approved, audited financial statements as certified to on a generally accepted accounting principles basis by Price Waterhouse. The balances determined by this examination differ from those certified to by Price Waterhouse only as to the IBNR reserve component for losses and loss expenses reserve based on the certified actuarial report performed by Walker and Associates in conjunction with this examination.

Refer to the accompanying notes to financial statements for explanation of examination changes and other significant accounting policies.

ARIZONA SCHOOL RISK RETENTION TRUST

Statement of Revenues, Expenses and Changes in Fund Balance

	Year Ended 1989	June 30, 1988
Revenues:		
Premiums -		
Gross written premiums.................	$ 3,831,725	$ 320,022
Less: Premium paid for excess insurance	(2,185,258)	(320,898)
Net Written Premiums.............	$ 1,646,467	$ (876)
Interest Income........................	78,895	21,697
Total Revenues	$ 1,725,362	$ 20,821
Expenses:		
Loss and loss expenses.................	$ 1,387,025	$ 26,320
Sales and marketing expenses...........	303,727	25,336
Administrative expenses................	409,230	39,027
Total Expenses	$ 2,099,982	$ 90,683
Excess (deficit) of revenues over expenses........................	$ (374,620)	$ (69,892)
Fund balance (deficit) beginning of year............................	(16,407)	53,455
End of Year	$ (391,027)	$ (16,407)

Refer to the accompanying notes to financial statements for explanation of examination changes and other significant accounting policies.

ARIZONA SCHOOL RISK RETENTION TRUST

NOTES TO FINANCIAL STATEMENTS

Note 1 - SUMMARY OF EXAMINATION CHANGES AND SIGNIFICANT ACCOUNTING POLICIES

Cash

The Trust's cash is invested in a pooled cash and investment account managed by the State Treasurer. Interest income on the invested funds is recorded monthly based on the State Treasurers computation of the rate of earnings on the pooled investment fund for that month.

Premium

Premium is earned over the policy period, which coincides with the fiscal year of the Trust. School district participants are allowed to prepay insurance premiums. The unearned premium represents funds prepaid by participants for coverages to be provided subsequent to the Balance Sheet date. The intergovernmental agreement allows for termination of coverage at any time following the initial twelve (12) months by written notice given at least ninety (90) days prior to such termination.

Reserves For Loss and Loss Expense

The reserves for loss and loss expenses consists of amounts due on known losses (aka case loss reserves), loss adjustment expenses, and losses incurred prior to the financial statement cut-off date that were as yet unreported to the Trust (IBNR).

Review of the reserves established by the Company as performed by Glenn Taylor, A.C.A.S., M.A.A.A. of Walker and Associates, indicates that the IBNR Reserve established by the Company may have been under accrued by $478,275. Based on the actuarial report (Exhibit A) a $478,275 examination adjustment was made to more accurately reflect the Trust's IBNR claim reserve liability at June 30, 1989.

Excess Insurance Coverage

The Trust limits its exposure to losses on certain property and liability coverages through the purchase of excess insurance. Premiums paid for such coverage is shown in the financial statement as a reduction to gross written premium. As mentioned previously in the "coverage provided" section of this report, the Trust duplicated coverages in 1988. As the original excess property insurance was purchased by the Trust on a fully earned basis, the Trust was unable to recover the unexpired portion of the premium paid when the combined coverage was obtained. This led to the exceptionally high premium paid for excess insurance for 1988 as indicated in the financial statement of this report.

Federal Income Taxes

The Trust received a determination letter from the Internal Revenue Service stating that the Trust's income is excludable from gross income under Section 115 of the Internal Revenue Code and is therefore not subject to taxation.

State Premium Tax

No provision has been made in the financial statements for State Premium Tax. Outside counsel for the Trust has determined that the Trust is not subject to such tax under its current mode of operation.

Fund Balance(Deficit)

Based on the actuarial estimate of the IBNR reserve at June 30, 1989, there appears to be a deficiency in the Trust's assets of $391,027.

Funding in the amount of $391,027 is required to abate the deficiency.

CONCLUSION

I, the undersigned, hereby certify that an examination has been made of the **Arizona School Risk Retention Trust**, and the preceding is true to the best of my knowledge.

Respectfully submitted,

Robert J. Rodack

Robert J. Rodack, AFE
Examiner in Charge
Department of Insurance
State of Arizona

This report has been reviewed and properly shows the affairs and condition of the Company.

Field Supervisor
Department of Insurance
State of Arizona

EXHIBIT A

ACTUARIAL REVIEW

from

WALKER AND ASSOCIATES

Walker & Associates

Actuaries and Employee — Benefit Consultants
Member, American Academy of Actuaries
(801) 562-5748 **FAX (801) 562-2816**

P.O. Box 156
40 North Main
Midvale, Utah 84047

1200 Beneficial Life Tower
36 South State Street
Salt Lake City, Utah 84111

January 25, 1990

Mr. Larry E. Cross, CFE
Assistant Chief Examiner
Arizona Insurance Department
Corporate and Financial Affairs
Abacus Towers
3030 North 3rd Street, Suite 1100
Phoenix, Arizona 85012

RE: Examination of Arizona School Risk Retention Trust

Dear Larry:

In accordance with our assignment, we have examined the loss and loss adjustment expense reserves established by the Arizona School Risk Retention Trust as of June 30, 1989. Enclosed is our report.

We are pleased to have had the opportunity to work with you and Robert Rodack on this assignment. If you have any questions on our report, please give us a call.

Sincerely,

R. Glenn Taylor, ACAS, MAAA
Consulting Actuary

RGT/ms

Enclosures

Arizona School Risk Retention Trust

Actuarial Examination
of Loss and Loss Adjustment Expense Reserves
as of June 30, 1989

Prepared by:

Walker & Associates
Actuaries and Employee-Benefit Consultants

January 25, 1990

ARIZONA SCHOOL RISK RETENTION TRUST

EXAMINATION OF LOSS AND LAE RESERVES

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ARIZONA SCHOOL RISK RETENTION TRUST

EXAMINATION OF LOSS AND LAE RESERVES

SUMMARY

PURPOSE

The Arizona Insurance Department requested that Walker and Associates conduct an examination of the Arizona School Risk Retention Trust (the Trust) to determine the required loss and loss adjustment expense reserves as of June 30, 1989.

BACKGROUND

The Trust was established to provide property and liability insurance coverage to school districts within the State of Arizona who were either unable to obtain insurance coverage or unable to obtain coverage at a reasonable rate.

The Trust commenced business on July 1, 1986 and was initially co-administered by Southwest Risk Services, Inc. and Johnson & Higgins. Effective February 1, 1988, management of the Trust was transferred to Johnson & Higgins exclusively. Claims are administered by GAB Services, with oversight from Johnson & Higgins.

CONDITIONS AND LIMITATIONS

We have relied on loss and loss expense data provided by Johnson & Higgins in conducting our examination. We have audited a sample of claims files to verify the accuracy of this data.

Johnson & Higgins was not able to provide data regarding claims closed and paid by the Trust prior to February 1, 1988, nor claims experience of Trust insureds prior to their becoming members of the Trust.

The loss data we were provided include open claims as of February 1, 1988 and all subsequent opened claims. All data were grouped by fiscal accident year, with valuations of paid and incurred losses as of July 1, 1987, July 1, 1988, July 1, 1989, and December 31, 1989.

A premium rating formula was also provided by which theoretical premiums have been established for members and potential members. However, the resulting calculated premiums have not been those actually charged to members. Due to competitive forces, premiums have been altered in order to acquire new members to the Trust. Additionally, Trust administrators are unable to explain the source of the formula's factors and rates. Thus, we have been unable to formulate any conclusions regarding rate adequacy.

Our projection of future claim payment emergence is based on the Trust's historical experience, as well as on other data described in the ANALYSIS section. Due to the relatively recent formation of the Trust, along with the low volume of available data, it is possible that historical data will not be predictive of future emergence. Specific reserve amounts are necessarily estimates, and it should be recognized that future loss emergence will likely deviate, perhaps substantially, from our estimates. However, we have employed techniques and assumptions that we believe are appropriate, and we further believe that the conclusions presented herein are reasonable, given the information currently available. These methods are documented throughout the text and in supporting exhibits.

All references to losses within this report are for losses and allocated loss adjustment expenses. We have not made a separate provision for unallocated loss adjustment expenses.

CONCLUSIONS

We have estimated total loss and allocated loss adjustment expense reserves at $1,079,823 as of June 30, 1989. This compares to booked reserves of $601,548, indicating a reserve deficiency of $478,275. Our reserve indications are summarized on Exhibit I.

The Trust's method of establishing IBNR reserves has been to allocate to an IBNR fund any portion of premiums left over following payment of administrative expenses and claims, and following establishment of case reserves. This method naturally implies that inadequate premiums will directly result in inadequate loss reserves. Given the Trust's expressed need to attract new members through competitive premiums, it is not surprising that inadequate premiums may have been charged. Ironically, the formation of the Trust was based on the premise that insurance coverage was either not available or else was not available at a reasonable cost in the private market.

It should be noted that actual incurred losses for the initial three years of operation, valued as of December 31, 1989, already exceed the June 30, 1989 estimate of incurred losses for the same period. Thus, the IBNR reserve of approximately $100,000, as of June 30, 1989, has already been depleted due to loss development during this six-month period.

In our analysis, we have assumed that future development will be attributable only to the lines of auto liability, general liability, and professional liability, and that case reserves for all open property claims are adequate as of December 31, 1989. We have further assumed that all claims applicable to coverage during the period of time under examination have been reported as of December 31, 1989.

Our loss reserve figure of $1,079,823, and the resulting indicated deficiency of $478,275, implies an inception-to-date net loss ratio of 62.5%. Because of data restrictions previously explained, this loss ratio does not include claims closed and paid prior to February 1, 1988 and, therefore, is understated. Given this, the implied loss ratio figure appears to be reasonable.

The reserve deficiency further implies that direct and net premiums have been deficient by approximately 10% and 21%, respectively. This also appears reasonable given the Trust's pricing philosophy.

The Trust has indicated that their IBNR reserve procedure is being changed to require an actuarial estimate of IBNR reserve needs on an annual basis, as required by law. The Trust has also indicated that the premium rating procedure is being changed. Starting with the 1990/91 fiscal year, premiums calculated in accordance with the established rating formula will be charged to members, without deviation, unless and until a formal experience rating plan and, possibly, a schedule rating plan are established.

Our estimation procedures, assumptions, and conclusions are more fully described in the following ANALYSIS section and exhibits.

ANALYSIS

METHODOLOGY

Due to the relative recent formation of the Trust and to the limited availability of data, we have employed several methods to estimate loss and loss expense reserves for general liability and auto liability. We have weighted the results of these various methods in selecting a final reserve figure. All methods assume that additional claims will not be reported for either line of insurance.

Calculations of reserves using each of these methods are shown in Exhibits II-A through II-D. Supporting loss data for Exhibits II are shown in Exhibits III through III-F. Each of these methods is detailed below.

METHOD 1

Coopers and Lybrand conducted a study for the Trust to estimate funding levels for the 1989-90 fiscal year. As part of this study, they established expected average claim sizes for historical fiscal periods.

Method 1, as shown in Exhibit II-A, applies Coopers' expected average claim size levels to expected claim counts for the three applicable fiscal years to establish expected ultimate incurred losses. Coopers' figures allow the use of unaudited loss data prior to February 1, 1988, and also the use of members' loss data prior to their joining the Trust, as this was available to them. On the other hand, the disadvantage of using Coopers' figures is that they were viewing the 88/89 fiscal year one-half the way through, rather than after the conclusion of the year as we have been able to do.

METHOD 2

Method 2, as also shown in Exhibit II-A, duplicates Method 1, except that our estimates of average claim size are used rather than Coopers'. Our estimates vary significantly from Coopers' due to the differences outlined above.

METHOD 3

Coopers' study contains factors to develop incurred losses to ultimate losses from 18, 30, and 42 months. Method 3, as shown in Exhibit II-B, applies these factors to incurred losses as of December 31, 1989 to arrive at ultimate losses for each of the three fiscal years.

METHOD 4

Method 4, as also shown in Exhibit II-B, duplicates Method 3, except that general industry incurred loss development factors for general liability and auto liability are used rather than Coopers' factors.

METHOD 5

Method 5, as shown in Exhibit II-C, duplicates Method 4, except that general industry paid loss development factors are applied to paid-to-date losses.

METHOD 6

Method 6, as shown in Exhibit II-D, makes use of past average outstanding reserves to establish expected current average outstanding reserves. This is expected to be a fairly unreliable method and, thus, is given little weight in arriving at the final reserve figure.

METHOD 7

Method 7, as shown in Exhibit II-E, makes use of the Bornhuetter-Ferguson method. This method is useful in situations where a company's loss experience does not provide a reliable indicator of the underlying loss development patterns, and is a blend of two other methods. The first method is the loss development method, used previously, where actual reported or paid losses are multiplied by an expected loss development factor. The second method is to simply set the IBNR reserve equal to the difference between a predetermined estimate of expected losses and actual reported losses as they emerge. The blend of these two methods gives credit to the Trust for development which has occurred to date, but relies on expected losses, based on non-Trust experience, to determine the estimate of remaining development.

In using this method, we have assumed an 85% expected loss ratio for the 88/89 fiscal accident year which, in turn, assumes rate adequacy and the given expense loading in the premium rating formula. We have disregarded prior accident year periods in this analysis since even less is known regarding rate adequacy for these years, and also because of the minimal number of open claims.

TRUST EXPERIENCE

Exhibits III through III-F show the loss experience of the Trust in accident year format. As can be seen, the volume of data is very limited, and development patterns are sufficiently inconsistent so as to eliminate any possibility of extrapolating future development from historical patterns.

RECOMMENDATIONS

In the future, we recommend that the Insurance Department verify that a formal rating procedure, which utilizes adequate rates, is employed by the Trust in setting premiums for its members.

We also recommend that the Insurance Department verify annually that the required actuarial review of loss reserves is conducted, and that a reasonable estimate of loss reserves is set up by the Trust.

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT I

SUMMARY OF RESULTS

METHOD 1 - INDICATED RESERVES	1,024,675
METHOD 2 - INDICATED RESERVES	644,766
METHOD 3 - INDICATED RESERVES	1,269,529
METHOD 4 - INDICATED RESERVES	755,850
METHOD 5 - INDICATED RESERVES	797,258
METHOD 6 - INDICATED RESERVES	719,605
METHOD 7 - INDICATED RESERVES	790,867
WEIGHTED AVERAGE (GL AND AL)	824,995
SELECTED RESERVES (GL AND AL)	825,000
INDICATED CASE RESERVES (AUTO PHYS DAM, B/M, PROPERTY)	254,823
SELECTED TOTAL RESERVES	1,079,823
BOOKED RESERVES	601,548
INDICATED RESERVE REDUNDANCY/(DEFICIENCY)	(478,275)
IMPLIED TOTAL INCURRED LOSSES (INCEPTION THRU 6/30/89) *	1,453,567
IMPLIED NET LOSS RATIO-ALL LINES *	62.5%

* DOES NOT INCLUDE CLAIMS CLOSED AND PAID PRIOR TO FEBRUARY 1, 1988.

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT II-A

RESERVE CALCULATIONS - METHODS 1 AND 2

METHOD 1

LINE	FISCAL/ ACCIDENT YEAR	C/L SELECTED INCURRED SEVERITY	ULTIMATE INCURRED CLAIM COUNT	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	86/87	3,182	0	0	0	0		
	87/88	5,000	1	5,000	188	4,812		
	88/89	4,800	77	369,600	44,075	325,525	68.8%	101.7%
GENERAL LIABILITY	86/87	8,372	1	8,372	0	8,372		
(INCL. PROF. LIAB.)	87/88	6,915	5	34,575	8,785	25,790		
	88/89	6,600	103	679,800	19,625	660,175	42.0%	87.8%
TOTAL			187	1,097,347	72,672	1,024,675		

METHOD 2

LINE	FISCAL/ ACCIDENT YEAR	SELECTED INCURRED SEVERITY	ULTIMATE INCURRED CLAIM COUNT	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	86/87	0	0	0	0	0		
	87/88	188	1	188	188	0		
	88/89	2,500	77	192,500	44,075	148,425	35.8%	52.9%
GENERAL LIABILITY	86/87	0	1	0	0	0		
(INCL. PROF. LIAB.)	87/88	1,950	5	9,750	8,785	965		
	88/89	5,000	103	515,000	19,625	495,375	31.9%	66.5%
TOTAL			187	717,438	72,672	644,766		

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT II-B

RESERVE CALCULATIONS - METHODS 3 AND 4

METHOD 3

LINE	FISCAL/ ACCIDENT YEAR	INCURRED LOSSES @ 12/31/89	C/L LOSS DEVELOPMENT FACTOR	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	86/87	0	1.120	0	0	0		
	87/88	188	1.160	218	188	30		
	88/89	137,888	2.000	275,776	44,075	231,701	51.3%	75.9%
GENERAL LIABILITY	86/87	6,500	1.110	7,215	0	7,215		
(INCL. PROF. LIAB.)	87/88	9,746	1.340	13,060	8,785	4,275		
	88/89	354,553	2.950	1,045,933	19,625	1,026,308	64.7%	135.1%
TOTAL		508,876		1,342,202	72,672	1,269,529		

METHOD 4

LINE	FISCAL/ ACCIDENT YEAR	INCURRED LOSSES @ 12/31/89	INDUSTRY LOSS DEVELOPMENT FACTOR	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	86/87	0	1.069	0	0	0		
	87/88	188	1.149	216	188	28		
	88/89	137,888	1.340	184,812	44,075	140,737	34.4%	50.8%
GENERAL LIABILITY	86/87	6,500	1.162	7,551	0	7,551		
(INCL. PROF. LIAB.)	87/88	9,746	1.327	12,936	8,785	4,151		
	88/89	354,553	1.757	623,007	19,625	603,383	38.5%	80.4%
TOTAL		508,876		828,523	72,672	755,850		

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT II-C

RESERVE CALCULATIONS - METHOD 5

METHOD 5

LINE	FISCAL/ ACCIDENT YEAR	PAID LOSSES @ 12/31/89	INDUSTRY LOSS DEVELOPMENT FACTOR	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	86/87	0	1.247	0	0	0		
	87/88	188	1.545	290	188	102		
	88/89	80,702	2.344	189,176	44,075	145,101	35.2%	52.0%
GENERAL LIABILITY	86/87	193	2.298	443	0	443		
(INCL. PROF. LIAB.)	87/88	9,246	3.321	30,709	8,785	21,923		
	88/89	106,552	6.094	649,314	19,625	629,689	40.2%	83.8%
TOTAL		196,881		869,931	72,672	797,258		

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT II-D

RESERVE CALCULATIONS - METHOD 6

METHOD 6

LINE	FISCAL/ ACCIDENT YEAR	AVERAGE CLOSED PAID @ 6/30/89	AVERAGE OPEN RESERVE @ 6/30/89	AVERAGE CLOSED PAID @ 12/31/89	AVERAGE OPEN RESERVE @ 12/31/89	ESTIMATED ULTIMATE AVERAGE RESERVE @ 12/31/89	OPEN CLAIM COUNT @ 12/31/89
AUTO LIABILITY	86/87	0	0	0	0	0	0
	87/88	188	0	188	0	0	0
	88/89	1,075	2,210	1,242	4,765	7,148	12
GENERAL LIABILITY	86/87	0	2,500	0	6,307	12,615	1
(INCL. PROF. LIAB.)	87/88	2,196	0	1,849	500	1,000	1
	88/89	418	3,943	1,366	9,920	19,840	25
TOTAL							39

LINE	ESTIMATED LOSS/LAE RESERVES @ 12/31/89	PAID LOSSES @ 12/31/89	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	0	0	0	0	0		
	0	188	188	188	0		
	85,779	80,702	166,481	44,075	122,406	31.0%	45.8%
GENERAL LIABILITY	12,615	193	12,807	0	12,807		
(INCL. PROF. LIAB.)	1,000	9,246	10,246	8,785	1,461		
	496,002	106,552	602,555	19,625	582,930	37.3%	77.8%
TOTAL	595,396	196,881	792,277	72,672	719,605		

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT II-E

RESERVE CALCULATIONS - METHOD 7

.METHOD 7

LINE	FISCAL/ ACCIDENT YEAR	EXPECTED LOSSES	B/F IBNR DEVELOPMENT FACTOR	ESTIMATED IBNR @ 12/31/89	INCURRED LOSSES @ 12/31/89
AUTO LIABILITY	86/87	N/A	N/A	N/A	N/A
	87/88	N/A	N/A	N/A	N/A
	88/89	309,023	0.122	37,831	137,888
GENERAL LIABILITY	86/87	N/A	N/A	N/A	N/A
(INCL. PROF. LIAB.)	87/88	N/A	N/A	N/A	N/A
	88/89	658,306	0.524	345,200	354,553
TOTAL		967,330		383,031	492,442

LINE	ESTIMATED ULTIMATE INCURRED LOSSES	PAID LOSSES @ 6/30/89	ESTIMATED LOSS/LAE RESERVES @ 6/30/89	ESTIMATED DIRECT 88/89 LOSS RATIO	ESTIMATED NET 88/89 LOSS RATIO
AUTO LIABILITY	N/A	N/A	N/A		
	N/A	N/A	N/A		
	175,719	44,075	131,645	32.7%	48.3%
GENERAL LIABILITY	N/A	N/A	N/A		
(INCL. PROF. LIAB.)	N/A	N/A	N/A		
	699,753	19,625	680,129	43.3%	90.4%
TOTAL	875,473	63,699	811,773		

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III

LOSS DEVELOPMENT - ALL LINES

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	2,500	6,500
87/88		150	10,347	11,308
88/89			863,808 *	1,046,962 *
88/89 LOSS RATIO			22.7%	27.5%
TOTAL	0	150	876,655	1,064,770

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	2.600
87/88		68.795	1.093
88/89			1.212

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	193
87/88		150	10,347	10,808
88/89			363,397 *	735,875 *
TOTAL	0	150	373,744	746,876

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		68.795	1.045
88/89			2.025

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
86/87	0	0	1	1	1
87/88		8	8	8	1
88/89			279	279	51
TOTAL	0	8	288	288	53

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	ERR	ERR	2,500	6,500
87/88		19	1,293	1,414
88/89			3,096	3,753

* Ceded property loss of $156,249 has been excluded.

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-A

LOSS DEVELOPMENT - AUTO LIABILITY

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	188	188
88/89			123,622	137,888
88/89 LOSS RATIO			23.0%	25.7%
TOTAL			123,810	138,076

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	1.000
88/89			1.115

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	188	188
88/89			44,075	80,702
TOTAL			44,263	80,890

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	1.000
88/89			1.831

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
86/87	0	0	0	0	0
87/88		1	1	1	0
88/89			77	77	12
TOTAL				78	12

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	ERR	ERR	ERR	ERR
87/88		0	188	188
88/89			1,605	1,791

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-B

LOSS DEVELOPMENT - GENERAL LIABILITY

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
		VALUATION DATES		
86/87	0	0	0	0
87/88		150	700	1,661
88/89			239,460	352,614
88/89 LOSS RATIO			14.9%	21.9%
TOTAL			240,161	354,276

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
		DEVELOPMENT PERIODS	
86/87	ERR	ERR	ERR
87/88		4.656	2.373
88/89			1.473

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
		VALUATION DATES		
86/87	0	0	0	0
87/88		150	700	1,161
88/89			18,626	104,613
TOTAL			19,326	105,775

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
		DEVELOPMENT PERIODS	
86/87	ERR	ERR	ERR
87/88		4.656	1.659
88/89			5.617

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
		VALUATION DATES			
86/87	0	0	0	0	0
87/88		4	4	4	1
88/89			101	101	25
TOTAL				105	26

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
		VALUATION DATES		
86/87	ERR	ERR	ERR	ERR
87/88		38	175	415
88/89			2,371	3,491

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-C

LOSS DEVELOPMENT - PROFESSIONAL LIABILITY

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
	VALUATION DATES			
86/87	0	0	2,500	6,500
87/88		0	8,085	8,085
88/89			999	1,939
88/89 LOSS RATIO			ERR	ERR
TOTAL			11,584	16,524

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
	DEVELOPMENT PERIODS		
86/87	ERR	ERR	2.600
87/88		ERR	1.000
88/89			1.941

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
	VALUATION DATES			
86/87	0	0	0	193
87/88		0	8,085	8,085
88/89			999	1,939
TOTAL			9,084	10,217

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
	DEVELOPMENT PERIODS		
86/87	ERR	ERR	ERR
87/88		ERR	1.000
88/89			1.941

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
	VALUATION DATES				
86/87	0	0	1	1	1
87/88		1	1	1	0
88/89			2	2	0
TOTAL				4	1

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
	VALUATION DATES			
86/87	ERR	ERR	2,500	6,500
87/88		0	8,085	8,085
88/89			500	970

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-D

LOSS DEVELOPMENT - AUTO PHYSICAL DAMAGE

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	1,374	1,374
88/89			57,071	55,566
88/89 LOSS RATIO			22.7%	22.1%
TOTAL			58,445	56,940

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	1.000
88/89			0.974

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	1,374	1,374
88/89			45,410	54,566
TOTAL			46,784	55,940

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	1.000
88/89			1.202

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
86/87	0	0	0	0	0
87/88		2	2	2	0
88/89			33	33	4
TOTAL				35	4

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	ERR	ERR	ERR	ERR
87/88		0	687	687
88/89			1,729	1,684

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-E

LOSS DEVELOPMENT - BOILER AND MACHINERY

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	0	0
88/89			3,483	3,983
88/89 LOSS RATIO			4.1%	4.6%
TOTAL			3,483	3,983

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	ERR
88/89			1.144

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	0	0
88/89			283	283
TOTAL			283	283

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	ERR
88/89			1.000

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
86/87	0	0	0	0	0
87/88		0	0	0	0
88/89			2	2	1
TOTAL				2	1

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	7/1/87	7/1/88	7/1/89	12/31/89
86/87	ERR	ERR	ERR	ERR
87/88		ERR	ERR	ERR
88/89			1,741	1,991

ARIZONA SCHOOL RISK RETENTION TRUST

EXHIBIT III-F

LOSS DEVELOPMENT - PROPERTY

INCURRED LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	0	0
88/89			439,172 *	494,972 *
88/89 LOSS RATIO			33.5%	37.8%
TOTAL			439,172	494,972

INCURRED DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	ERR
88/89			1.127

PAID LOSS DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	0	0	0	0
87/88		0	0	0
88/89			254,004 *	493,771 *
TOTAL			254,004	493,771

PAID DEVELOPMENT FACTORS

FISCAL/ ACCIDENT YEAR	DEVELOPMENT PERIODS 7/87-7/88	7/88-7/89	7/89-12/89
86/87	ERR	ERR	ERR
87/88		ERR	ERR
88/89			1.944

CLAIM COUNT DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89	# OPEN CLAIMS @ 12/31/89
86/87	0	0	0	0	0
87/88		0	0	0	0
88/89			64	64	9
TOTAL				64	9

INCURRED SEVERITY DEVELOPMENT

FISCAL/ ACCIDENT YEAR	VALUATION DATES 7/1/87	7/1/88	7/1/89	12/31/89
86/87	ERR	ERR	ERR	ERR
87/88		ERR	ERR	ERR
88/89			6,862	7,734

* Ceded loss of $156,249 has been excluded.

GRP #	
1	Arlington School District
2	BEAVER CREEK
3	Blue River
4	EAGLE ELEMENTARY
5	EMPIRE
6	HIGLEY ELEM
7	LITTLETON
8	ALTAR VALLEY
9	MOHAWK VALLEY
10	MORRISTOWN
11	Palo Verde
12	Paloma
13	Palominas
14	Patagonia
15	Quartzsite
16	ST. DAVID UN
17	Tombstone
18	Union Elem
19	Willcox
20	Pima County
22	AJO
23	ANTELOPE
24	Ash Fork
25	BALSZ
26	Bisbee
27	Bonita
29	CEDAR
30	Chandler
31	CHLORIDE ELEM
32	Cochise County
33	Colorado City
34	Concho Elem
35	Double Adobe
36	Elfrieda
37	Ft Hauchuca Accom
38	Gila Bend
39	Gilbert
41	Holbrook
43	Kingman
44	Kyrene

	45	Liberty
	46	madison
	47	maine Consolodated
	48	Maricopa
	49	MCNARY ELEM
	50	Miami
	51	MOHAVE
	52	Oracle Sch Dist
	53	Parker
	54	Payson
	55	Pendergast
	57	Prescott
	58	Queen Creek
	60	?
	62	San Simon
	63	Sanders
	64	Santa Cruz
	65	Show low
	66	Solomonville
	67	Sonoita
	68	Superior
	69	VAIL ELEM
	71	White River
	72	Sahuarita Un
	73	Globe
	74	Window Rock
	75	?
	76	—
	77	Apache Junction
	78	Pearce
	79	Joseph City
100	79	Bullhead City
0020	1	?

PLANNING DOCUMENT

EXHIBIT B

MULLEN & ASSOCIATES INC.

James E. Mullen PRESIDENT

Acceptive Sav
Fy 90-91
6/19/90

May 30, 1990

Mr. Sid Grande
Superintendent
Antelope Union H.S. District #50
Route 1, Box 26
Wellton, AZ. 85356

Re: Arizona School Risk Retention Trust

Dear Sid:

Thank you for having your Authorized Insurance Representative (AIR) request a quotation from the **Arizona School Risk Retention Trust**. We have provided an **ANNUAL PLANNING DOCUMENT** with a quotation on a <u>NOT TO EXCEED</u> basis to your AIR, and also to you directly. This allows you to have a number for budget purposes that may decrease when you receive your final Annual Contribution Invoice.

In addition, we have attached a description of Trust coverages that is set up in an easy to use format for comparing the coverages offered by the Trust to those offered by private commercial insurers. You may want your agent to complete this comparison so it is more clear as to the quality of coverage offered by the Trust. We are sure you will find the Trust's coverage fully meets the needs of your district.

It is often helpful to talk to Superintendents or Business Managers of neighboring school districts that are members of the Trust. In your geographic area, the following district is a Trust member:

- Mohawk Valley School District #17

As the Trust is an alternative risk financing option that replaces private commercial insurance, there are often questions that you or your governing board may have. In order to properly answer these questions, we are available to meet at your convenience and discuss the Trust and its operations. We would also request the opportunity to represent the Trust at your governing board meeting should you formally consider Trust membership.

Sincerely,

James E. Mullen

James E. Mullen
Risk Manager

JEM:js

cc: Dave Curry
Enclosure

4517 NORTH 12th STREET • PHOENIX, ARIZONA 85014 • (602) 265-4624
FAX # (602) 248-8053

School District: ANTELOPE UNION HIGH SCHOOL #50

ARIZONA SCHOOL RISK RETENTION TRUST
ANNUAL PLANNING DOCUMENT

GENERAL LIABILITY - including School Board and Teachers Professional Liability

Limit: $ 5,000,000/occurrence
No aggregate limit of liability

Deductible: $ 0

Annual Contribution: $ 4,370

> NOTE: Annual Contribution for General Liability includes International Liability coverage with an insurance company approved by foreign countries.

AUTOMOBILE LIABILITY

Limit: $ 5,000,000

Deductible: $ 0

Annual Contribution: $ 11,730

> NOTE: Annual Contribution for Automobile Liability includes Mexican Auto coverage with an insurance company approved by the Government of Mexico.

EXCESS LIABILITY

Limit: $ 5,000,000 excess of $ 5,000,000

Annual Contribution: $ 3,184

PROPERTY - All Risk including Flood and Earthquake

Limit: Total Insurable Value

Deductible: $ 1,000

Annual Contribution: $ 5,312

AUTO PHYSICAL DAMAGE

Limit:	Actual Cash Value
Deductible - Comprehensive:	$ 250
Deductible - Collision:	$ 250
Annual Contribution:	$ 1,496

BOILER AND MACHINERY

Limit:	$ 10,000,000
Deductible:	$ 500
Annual Contribution:	$ 503

FAITHFUL PERFORMANCE FIDELITY BOND AND MONEY & SECURITIES

Limit: Faithful Performance	$ 100,000
Money and Securities	$ 45,000
Deductible:	$ 500
Annual Contribution:	$ 95

ANNUAL CONTRIBUTION SUBTOTAL:	$ 26,690
AUTHORIZED INSURANCE REPRESENTATIVE FEE:	$ 2,135
TRUST ADMINISTRATION FEE:	$ 1,350
CAPITALIZATION:	$ 1,335
ANNUAL CONTRIBUTION GRAND TOTAL:	$ 31,510

By: Teddy Crisp

Date: 5/30/90

For: Arizona School Risk Retention Trust

ARIZONA SCHOOL RISK RETENTION TRUST

THIS IS A DESCRIPTIVE SUMMARY OF TRUST COVERAGE, NOT AN INSURANCE POLICY - THE TERMS AND CONDITIONS OF TRUST PROVIDED COVERAGE ARE CONTAINED IN THE APPENDICIES TO THE INTERGOVERNMENTAL AGREEMENT.

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER PLAN COMPARISON
PROPERTY COVERAGE		
Real Property	All real property owned, used or intended for use by the District including improvements and betterments in buildings not owned by the District. No limitation on newly acquired property. Additional contribution may be required on buildings valued greater than **$1,000,000**. Limit of Liability is equal to TOTAL INSURABLE VALUE PER OCCURRENCE.	
Personal Property	Personal property owned, used, or intended for use by the District, including property in the care, custody and control of the District and coverage for which the district agrees to cover by contract. No coverage limitations on personal property.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Extra Expense	Extra expense required to continue normal operation. Limit of Liability - No limitation.	
Business Interruption	Extra expense required to continue normal operation. Actual loss of business income. No limit of liability.	
Rental Value Loss	Actual loss of business income. No limit of liability.	
[illegible]on Revenue Loss	Actual loss of business income. No limit of liability.	
Accounts Receivable	Amount due from customers, plus interest and cost of collection. No limit of liability.	
Property Damage During Course of Construction	Coverage on a primary basis. If project insured under a separate Builder's Risk policy, provides DIC and excess coverage.	
Increased Cost of Construction	Covers the full cost to erect or repair building to meet requirements of law or ordinance.	
Automobiles While in Garage	Covered on replacement cost basis as part of the property policy.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Flood	No limitation.	
Earthquake	No limitation.	
Collapse	No limitation.	
Excluded Property	1) Currency, money, deeds, etc.	
	2) Land, minerals, standing timber and crops.	
	3) Roads, bridges, tunnels, dams.... and retaining walls...	
	4) Watercraft, aircraft, vehicles not in motion.	
	5) Animals	
	No exclusion for cost of excavation, grading, backfilling, etc.	
	No exclusion for pilings, piers, etc.	
	No exclusion for property insured elsewhere.	
	No exclusion for underground tanks, pipes, flues...	
	No exclusion for buildings vacant at policy inception or anniversary.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST		OTHER

Perils Excluded

To Buildings Owned or Occupied Including Contents	13.12	Seizure or destruction by order of public authority	
	13.10	Hostile or warlike action.	
	13.9	Nuclear reaction.	
	13.14	Contamination	
	13.1	Loss from unexplained or mysterious disappearance.	
	13.2	Wear and tear, deterioration or inherent vice.	
	13.4	Electrical apparatus exclusion.	
	13.5	Dampness or dryness.	
	13.6	Mechanical breakdown.	
	13.7	Wet, dry rot, smoke, smudge, settling, shrinkage, etc.	
	13.13	Risks of contraband or illegal trade.	
	13.3	Dishonest or criminal acts.	

No exclusion for loss resulting from water leaks or flows resulting from failure to maintain freeze protection.

No exclusion for damage from rain to personal property left in the open.

No exclusion for power failure (specifically covered pursuant to Section 8, sub-part 8.2 of Intergovernmental Agreement).

No exclusion for flood.

No exclusion for earthmovement.

No exclusion for collapse.

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Cancellation Clause	IGA Paragraph 4, Termination subject to 12 months prior notice, suspension subject to 90 days prior notice. Contribution returned pro-rata if District terminates membership.	
Valuation	Replacement cost. No provision to build at same site, nor requirement to rebuild if not required for school operations.	
Coinsurance	Agreed amount.	
Premium Determination	Guaranteed annual except for additions greater than $1,000,000. Additional premium may be charged for additions greater than $1,000,000	
New Acquisition	Automatic coverage for full policy limit.	
Notice of Loss Cause	Agreed.	
Inspection	Loss control inspections provided.	
Deductible	$1,000 per occurrence.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
BOILER AND MACHINERY		
Property Insured	All objects under comprehensive form.	
Limits of Liability	**$10,000,000** per accident.	
Deductible	**$500** per accident.	
Valuation	Repair or replacement.	
Cancellation	1 year	
CRIME		
Faithful Performance	**$100,000**/occurrence	
Money and Securities	**$45,000**/occurrence	
Deductible	$500/occurrence	
SCHOOL DISTRICT LIABILITY		
Form	Comprehensive public official liability.	
Limits of Liability	**$5,000,000**/occurrence.	
	No aggregate limit of liability.	
	Defense costs are included in the limit of liability.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Coverages	N/E = Not Excluded	
Bodily Injury and Property Damage	Yes	
Personal Injury Including Sexual Abuse	Yes	
Products and Completed Ops	N/E	
Broad Form P.D.	Yes	
Fire Legal Liability	N/E	
Watercraft	Yes	
Fellow employee exclusion deleted	Yes	
Host liquor	N/E	
Incidental Malpractice	N/E	
Blanket contractual	Yes	
Teacher Professional	Yes	
Athletic Participation	N/E	
School Board (E&O)	Yes	
Employee Benefits Liability	Yes	
Unintentional Discrimination	Yes	
Wrongful Termination	N/E (except for class action suits)	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Deductible	None	
Territory	**Worldwide**; the Trust maintains an international liability insurance program with CIGNA that provides for claims brought in any foreign country including defense and settlement costs	
Cancellation Clause	1 year	
AUTOMOBILE LIABILITY		
Coverage	Coverage provided on comprehensive form. **Mexican auto coverage automatically provided by Seguro America.**	
Limits of Liability	**$5,000,000**/occurrence. **$100,000** underinsured motorist. **$100,000** uninsured motorist.	

MINIMUM REQUIREMENTS	ARIZONA SCHOOL RISK RETENTION TRUST	OTHER
Deductible	None	
Territory	Worldwide	
Cancellation Clause	1 year	
AUTO PHYSICAL DAMAGE		
Coverage	All owned, hired or leased vehicles.	
Limit of Liability	Actual cash value except for vehicles while not in operation at regular location. These covered at replacement cost.	
Deductible	$250 comprehensive $250 collision	
Cancellation	1 Year	
EXCESS LIABILITY	Following Form to School District and Auto Liability.	
Limit of Liability	$5,000,000/occurrence excess of $5,000,000/occurrence. No annual aggregate.	
Cancellation Clause	1 Year	

COI

EXHIBIT C

ACORD. CERTIFICATE OF INSURANCE

ISSUE DATE (MM/DD/YY): 8/12/88

PRODUCER

Johnson & Higgins of Arizona
041 North Central Avenue
Suite 1700
Phoenix, Arizona 85012

CODE | SUB-CODE

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW

COMPANIES AFFORDING COVERAGE

COMPANY LETTER A Arizona School Risk Retention
COMPANY LETTER B
COMPANY LETTER C
COMPANY LETTER D
COMPANY LETTER E

INSURED

Antelope Union High School
Route 1 Box 26
Wellton, Arizona 85356-9705

COVERAGES

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	ALL LIMITS IN THOUSANDS
	GENERAL LIABILITY COMMERCIAL GENERAL LIABILITY CLAIMS MADE OCCUR. OWNER'S & CONTRACTOR'S PROT.				GENERAL AGGREGATE $ PRODUCTS-COMP/OPS AGGREGATE $ PERSONAL & ADVERTISING INJURY $ EACH OCCURRENCE $ FIRE DAMAGE (Any one fire) $ MEDICAL EXPENSE (Any one person) $
	UTOMOBILE LIABILITY ANY AUTO X ALL OWNED AUTOS SCHEDULED AUTOS HIRED AUTOS NON-OWNED AUTOS GARAGE LIABILITY	KR86-1319-CIV	7/1/88	7/1/89	COMBINED SINGLE LIMIT $ 1,000 BODILY INJURY (Per person) $ BODILY INJURY (Per accident) $ PROPERTY DAMAGE $
	EXCESS LIABILITY OTHER THAN UMBRELLA FORM				EACH OCCURRENCE $ / AGGREGATE $
	WORKER'S COMPENSATION AND EMPLOYERS' LIABILITY				STATUTORY $ (EACH ACCIDENT) $ (DISEASE—POLICY LIMIT) $ (DISEASE—EACH EMPLOYEE)
A	OTHER Automobile Physical Damage	KR86-1319-CIV	7/1/88	7/1/89	$250 DED ACV Comp $250 Collision

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/RESTRICTIONS/SPECIAL ITEMS

Transamerica Commercial Finance Corporation is named as additional insured and loss payee as thier interest may appear with respects 1988 Ford 77 passenger school bus #08983

CERTIFICATE HOLDER

Transamerica Commercial Finance Corp.
3 N. Meacham Road
te 400
chaumburg, Il 60173

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

James E Mulley

IGA

EXHIBIT D

Department Of Insurance
State Of Arizona
Abacus Towers
3030 North 3rd Street, Suite 1100
Phoenix, Arizona 85012

ROSE MOFFORD
Governor

RECEIVED
DEC 4 1990

SUSAN GALLINGER
Director of Insurance

FAX COVER SHEET

THIS TRANSMISSION CONTAINS 20 PAGES (INCLUDING COVER SHEET)

DATE: 12/14/90

TO: Mr. John White, Chief Deputy (Name) FAX#: 602-329-9810

YUMA COUNTY ATTORNEY'S OFFICE (Company/Department)

FROM: J. JACK CURRY (Name)

CORP + FINANCIAL AFFAIRS (Department) FAX#: (602) 255-4722

RE: TELEPHONE CONVERSATION: INTERGOVERNMENTAL AGREEMENT

IF THERE IS ANY PROBLEM WITH THIS TRANSMISSION PLEASE CALL:

J. JACK CURRY OR ELLIE CASTNER

AT: (602) 255-5367

A.G. CONTRACT NO. KR86-1317-CIV

INTERGOVERNMENTAL AGREEMENT

1. Parties. The parties to this Intergovernmental Agreement (the "Agreement") are the State of Arizona through its Department of Administration (the "State") and ____________ ____, a school district located in ____________ County, Arizona (the "District").

2. Recitals. This Agreement is based upon certain understandings and in furtherance of certain purposes, as follows:

2.1. Arizona law permits two or more public agencies to enter into contracts or agreements to pool retention of their risks for property and liability losses and to provide for the payment of property losses or claims of liability made against any member of the pool on a cooperative or contract basis with one another.

2.2. Arizona law further permits public school districts to enter into intergovernmental agreements or contracts to participate in such risk retention pools to be established by the State's Department of Administration.

2.3. The District and certain other school districts desire to enter into intergovernmental agreements with the State for the purpose of establishing such a risk retention pool.

2.4. The State through its Department of Administration is authorized pursuant to A.R.S. § 41-621(B) to develop such a risk retention pool, has the expertise to establish and administer such a pool, and is willing to provide such service to the school districts desiring to participate therein.

3. Participation. Based on such understandings and in furtherance of such purposes, the State and the District agree to establish and participate in a risk retention pool as set forth herein, on the terms and conditions as described in this Agreement. The specific risks covered by the pool, the procedure for making claims against the pool, the means and procedures for defending against such claims, the persons or entities to be indemnified by such pool, the limitations and exclusions on coverage, and various other matters necessary or appropriate to the functioning of such a pool are more particularly described in the Coverage Agreement attached hereto as Appendix "A," which is deemed incorporated herein by this reference and which is made a part of this Agreement. The terms of the Coverage Agreement may be amended by majority vote of the Board of Trustees for the pool (the "Board") from time to time upon; provided, that the District shall be given at least ninety (90) days prior written notice thereof; and provided further, that the form of the Coverage Agreement shall be similarly amended at the same time for all participants.

3.1. Duration. This Agreement shall be effective as of the date set forth in the Coverage Agreement, or, if later, on the date the Agreement is filed with the Secretary of State and shall continue for a term of ten (10) years thereafter, unless earlier terminated as provided herein.

3.2. This Agreement may not be terminated by either party during the initial twelve (12) months after the effective date hereof, except that coverage may be suspended or terminated as provided herein for nonpayment of premiums or other violations by the District of the terms of this Agreement.

3.3. This Agreement may be terminated by the District, the Board, or the State at any time after the initial twelve (12) months, effective as of any anniversary of the effective date, by written notice of termination given at least thirty (30) days prior to such anniversary date.

3.4. This Agreement may be terminated by the District, the Board, or the State at any time following the initial twelve (12) months, effective as of a date (other than an anniversary date) by written notice given at least ninety (90) days prior to such termination.

3.5. This Agreement may be renewed for additional ten (10) year terms by mutual agreement of the District and the State prior to the expiration of the original or any renewal term of this Agreement as provided by A.R.S. § 11-952(H).

3.6. In the event the District shall terminate this Agreement for any reason, or in the event the Board or the State shall terminate this Agreement as a result of the breach of the terms hereof by the District prior to the expiration of the original ten (10) year term hereof, the District shall thereupon forfeit any and all rights to the return of any surplus, unearned contributions, or other distributions from the pool.

4. Termination of Pool. The pool shall be terminated upon the first to occur of the following:

(a) When all participants in the pool shall have ceased to participate;

(b) At such time as the Board shall determine that the number of participants and/or the size of the pool is too small to adequately indemnify against the risks specified in the Coverage Agreement.

Any termination pursuant to (b) above shall not be effective until the Board shall have given each participant at least one (1) years advance written notice of such termination. Upon termination of the pool, adequate provision shall be made for all pending and anticipated claims, the property and the liabilities of the pool shall be liquidated, a final accounting shall be made and the funds thereafter remaining in the pool shall be distributed among the then existing participants in the pool in proportion to the contributions made to the pool by each of the then existing participants during the preceding ten (10) years. In the event there are inadequate funds to meet all claims and expenses of the pool, an assessment shall be made pursuant to paragraph 8 of this Agreement and A.R.S. § 41-622.01(C).

5. Contributions. As of the effective date of this Agreement, and as of the first day of each fiscal year of the pool thereafter, the anticipated liabilities and expenses of the pool for the following fiscal year or portion thereof shall be calculated by the administrator of the pool based on the determination of the pool's actuary. Such liabilities and expenses shall include the cash needs of the pool to pay its current claim and allocated expense liabilities, an allowance for claims reported but not expected to be paid in said fiscal year, an allowance for claims incurred but not reported, and an allowance for the general administrative overhead of the pool. Such liabilities and expenses shall be allocated among the pool's participants based on the prorata exposure of each participant as that participant's exposure relates to the total exposure of the pool. The amount of each participant's exposure shall be determined by the pool's actuary based upon criteria and rating assumptions uniformly applied to each participant. The District agrees to furnish the Board all information requested by the pool's actuary to enable the actuary to determine the exposure of the District, and to promptly reply to all other correspondence or inquiries from the State or its representatives relating in any way to this Agreement. The Board shall advise each participant of the

amount of the pool's total liabilities and expenses for the following year, and the amount of liabilities and expenses allocated to each participant, on or before August 15th of each calendar year. The District shall pay its allocated share of such expenses and liabilities for the whole year to the pool in cash within thirty (30) days of such notification, or by such later date as shall be specified in the notice.

6. Distribution of Surplus. At the end of the tenth (10th) fiscal year of the pool's existence and at the end of each fiscal year thereafter, any surplus funds in the pool over and above those necessary to pay or reserve against the expenses and liabilities of the pool attributable to the first year of the ten (10) preceding fiscal years shall be distributed among the then existing participants in the pool who were partici- pants during such first year of the ten (10) preceding fiscal years. Such distribution shall be allocated among such parti- cipants in proportion to the contributions made by each such participant during the first year of the ten (10) preceding fiscal years of the pool.

7. Suspension. In the event the District shall fail to make its contribution as specified herein, or shall fail to comply with any of the other terms of this Agreement, the Board may, if such default is not cured within ten (10) days written notice to the District, suspend the District's coverage under this Agreement for a period of up to forty-five (45) days

without further notice or action. During such forty-five (45) day suspension period, the Board shall determine if the suspension shall be made permanent, in which case this Agreement shall be deemed terminated effective as of the date of suspension, or the circumstances, if any, under which the District's participation in the pool and the effectiveness of this Agreement may be restored. Should the District be permanently suspended and this Agreement terminated, the District shall forfeit all rights to any distribution of pool surpluses or property upon the termination of the pool. Regardless of such termination, however, the District's liability for ordinary contributions under Section 5 above shall be unaffected, and its liability for additional contributions shall continue to the extent provided in Section 8 below.

8. Assessment. If the pool becomes insolvent or is otherwise unable to discharge its legal liabilities and other obligations, the District may be assessed by the Board for an additional contribution equal to its contribution for the then current fiscal year divided by the contribution of all participants for such year, times the amount of such deficiency; provided, however, that (a) the amount of such assessment may not exceed the amount of the District's original required annual contribution to the pool for the year in which the assessment is made; (b) no more than one such assessment may be made during each fiscal year of the pool; and (c) each other

participant shall be simultaneously assessed its prorata share of such deficiency. Each such assessment, and the manner of calculating the same, shall be given to the District in writing, and the District shall thereafter have sixty (60) days in which to pay the amount of such assessment. The District shall remain liable for such assessments, regardless of the District's withdrawal from participation or the termination of this Agreement, for liabilities of the pool incurred during the District's period of membership.

9. Board of Trustees. The pool shall be operated by a Board of Trustees (the "Board") consisting of at least of five (5) persons who are elected officials or employees of public entities within the State of Arizona. The Assistant Director for Risk Management of the Arizona Department of Administration shall automatically be a member of the Board. The remaining four members shall be elected by the participants in the pool at the annual meeting of the participants held as provided in the Bylaws. The initial Board, in addition to the Assistant Director for Risk Management, shall consist of the following four persons who shall serve until the first Annual Meeting or until their successors shall have been duly elected and qualified:

____

____

____

____

The four members elected by the participants in the pool shall serve for a term of one year, coincident with the fiscal year of the pool, or until their successors shall have been duly elected and qualified. In the event of a vacancy among the seats held by the elected members, the remaining members shall appoint his successor by majority vote to serve as such for the remainder of the unfilled term. In the event no person holds the office of Assistant Director for Risk Management of the Arizona Department of Administration, the Director of the Arizona Department of Administration shall automatically become a member. If there is no Director, the Acting Director or a senior Assistant Director shall become a member in the place and stead of the Director. The number of members may be changed by a vote of a majority of the Board, provided that the Board shall always consist of at least five (5) members and no more than nine (9) members. Each participant in the pool shall be entitled to one vote in any election of members to the Board.

9.1. In accordance with A.R.S. § 11-952.01(B), the Board shall:

(a) Establish terms and conditions of coverage within the pool including exclusions of coverage.

(b) Insure that all claims for which each member incurs liability during each member's period of membership are paid promptly.

(c) Take all necessary precautions to safeguard the assets of the pool.

(d) Maintain minutes of its meetings.

(e) Designate an administrator to carry out the policies established by the Board and to provide day-to-day management of the pool and delineate in the written minutes of its meetings the areas of authority it delegates to the administrator.

(f) Notify the Arizona Director of Insurance of the existence of the pool and file with him and with the Arizona Attorney General a copy of this Agreement, which the Attorney General shall file with the Secretary of State as prescribed by A.R.S. § 11-952.

9.2. In accordance with A.R.S. § 11-952.01(C), the Board shall not:

(a) Extend credit to participants for payment of a premium, except pursuant to payment plans established by the Board.

(b) Borrow any monies from the pool or in the name of the pool except in the ordinary course of business.

10. Claim Settlement Authority. The administrator of the pool may settle any claim against the pool for which the pool is responsible pursuant to the terms of the Coverage Agreement up to the amount of $25,000.00, or such higher amount as may be established by the Board. The administrator may settle any

such claim of more than $25,000.00 (or of such higher amount established by the Board) only with the approval of the Board or of a claims committee established by the Board.

11. Inspection and Audit. The State and its representatives shall be permitted, but shall not be obligated, to inspect the District's properties and operations at any time. Neither the State's right to make inspections nor the making thereof shall constitute an undertaking, on behalf of or for the benefit of the District or others to determine or warrant that such property or operations are safe or are in compliance with any law, rule, or regulation.

11.1. The State may examine and audit the District's books and records at any time during the period this Agreement is in effect, and during any extensions hereof, and within three years after the final termination of this Agreement, insofar as said books and records may relate to the subject matter of this Agreement.

11.2. The pool shall be audited annually at the expense of the pool by a certified public accountant, and a copy of the report shall be submitted to the governing Board of the District and of each other participant in the pool, and to the Director of the Department of Insurance. The Board shall obtain an appropriate actuarial evaluation of the claim reserves of the pool including an estimate of the incurred but not reported claims. The pool shall also pay the cost of any examination of the pool and its reserves by the Director of the Arizona Department of Insurance as permitted by A.R.S. § 11-952.01(F).

12. Bylaws and Rules of Operation. The Board may make bylaws and rules pertaining to the exercise of its purpose and powers. The initial Bylaws for the pool shall be in the form attached hereto as Appendix "B," which is incorporated herein by this reference. The Board may, from time to time, propose revisions to said Bylaws, which shall become effective only upon approval by a majority of the members of the Board and the ratification by a majority of the participants of the pool. The Board may also from time to time adopt policies, rules, and procedures for the administration and operation of the pool by majority vote of the Board without ratification by the participants so long as such policies, rules, and procedures are not inconsistent with this Agreement or the Bylaws. No provision of the Bylaws, policies, rules, or procedures shall be inconsistent with the terms of this Agreement.

13. Place of Business. The pool shall have its principal place of business at the offices of the Arizona Department of Administration, Risk Management Division, or at such other place or places as may be established by the Board from time to time. The Board may employ necessary staff and may purchase, lease, or rent real and personal property in order to carry out the business and purposes of the pool.

14. Professional Services. The Board may retain the services of such legal counsel, actuaries, auditors, engineers, private consultants and advisors as it deems necessary in order to carry out the business and purposes of the pool.

15. Financial and Banking Services. Financial management, including accounting, deposit and disbursement of funds, and investment of pool funds, will be provided by the State of Arizona Office of the Treasurer through its own resources or through banks and financial institutions selected by the Office of the Treasurer. The pool may issue checks in its own name. The pool shall advance funds to the Office of the Treasurer quarterly to cover the administrative costs incurred by the Office of the Treasurer in rendering such services.

16. Administration. Administration and risk management services shall be provided by the Arizona Department of Administration. The pool shall advance funds quarterly to the Arizona Department of Administration to cover costs incurred by the Arizona Department of Administration in rendering such services.

17. Loss Control. The District agrees to maintain a program of loss control in conformance with the Loss Control Program Standards For Members, a copy of which is attached hereto as Appendix "C" and incorporated by this reference. The State will provide professional loss control consulting services to aid in the establishment, implementation, and administration of the loss control program by the District.

18. Standard of Care. The State and the Board shall use its best efforts to perform the services described herein in accordance with the provisions of this Agreement. For purposes of this Agreement, the term "best efforts" shall mean the exercise of that standard of skill and care which a skilled, competent, experienced, and prudent administrator would use to perform and complete the requirements of this Agreement in a timely manner, exercising the degree of skills, care, competence, and prudence customarily imposed on an administrator performing similar work.

19. Subrogation. In the event a recovery is obtained against a third party pursuant to the right of subrogation set forth in the Coverage Agreement, such recovery shall first be applied to the costs of recovery, and the balance, if any, shall be apportioned between the pool and the District in proportion to their respective losses from the occurrence giving rise to such recovery.

20. Conformity with Law. In the event any term or provision of this Agreement shall be in conflict with the laws and statutes of the State of Arizona as they now exist or are hereafter amended, this Agreement shall be automatically deemed amended to conform to such laws and statutes.

21. Authorized Representative. The State and the District shall each designate a representative authorized to act on

their behalf in all matters pertaining to this Agreement. The following representatives shall be the initial representatives:

For the State:

Department of Administration
Attention: ____________

____
Title

____
Address

____
City State Zip Code

For the District:

____
Name

____
Title

____
Address

____
City State Zip Code

Such representatives and/or addresses may be changed by either party from time to time by written notice to the other.

22. Fiscal Year. The fiscal year of the pool shall begin on July 1 of each year and end on June 30 of each year.

22. Authorizing Action. This Agreement shall become effective only upon: (a) the execution and delivery of this Agreement by the Director of the Arizona Department of Administration on behalf of the State, (b) the execution and delivery of this Agreement by an authorized representative of the District on behalf of the District, (c) the delivery to the State of a certified copy of a resolution of the action of the governing board of the District approving the execution of this Agreement by such representative of the District, (d) the approval of the establishment of the pool described herein by the Arizona Joint Legislative Budget Committee as required by A.R.S. § 41-621(B) if such approval has not heretofore been given, (e) the determinations of the Attorney General and the District's attorney required by A.R.S. § 11-952(D), (f) the filing of a fully executed copy of the Agreement with the Director of Insurance and the Attorney General as required by A.R.S. § 11-952.01(B)(6), and (g) the filing of a copy of this Agreement with the Arizona Secretary of State by the Attorney General pursuant to A.R.S. § 11-952(E) and § 11-952.01(B)(6).

22.1. Prior Acts of Parties. As the State and the District have already commenced operating after May 21, 1986, as contemplated by A.R.S. §§ 41-621(B), 41-622.01, and 11-952.01, which were enacted as an emergency measure in Chapter 39, Laws of 1986, by the Second Session of the 37th

Legislature of Arizona and approved by the Governor on May 21, 1986, the acts of the parties taken pursuant to these statutes are acknowledged, incorporated herein, and superceded by this Agreement, on the condition that:

(a) The Board has indicated its approval thereof, and

(b) Payment of appropriate contribution has been made by the District to cover such earlier period.

23. Liability. It is expressly acknowledged and agreed that neither the State nor any of its departments or political subdivisions other than the District, shall have any liability pursuant to this Agreement except to disburse the funds in the pool in accordance with the terms of this Agreement and the other similar agreements between the State and other participants in the pool. The State shall have no obligation to pay or defend claims except from the funds in the pool, and in the event there are insufficient funds in the pool for this purpose after paying the expenses and obligations of the pool as set forth herein and after collecting all assessments from the participants as set forth herein, the State shall have no further obligation to defend or pay said claims.

23.1. No participant in the pool shall, by reason of this Agreement, have any liability for claims brought by third parties against any other participant, other than the obligation to contribute certain funds to the pool as expressly provided herein. The liability for any claim against the

District shall remain the sole and exclusive liability of the District; the obligation of the State and the pool is to indemnify the District against such loss as provided in the Coverage Agreement to the extent and under the conditions contained therein, and only to the extent there are funds in the pool for this purpose.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below.

STATE OF ARIZONA,
DEPARTMENT OF ADMINISTRATION

By ______________________________
Its ______________________________
Date: ______________________________

________________SCHOOL DISTRICT,
________________ County, State of Arizona

By ______________________________
Its ______________________________
Date: ______________________________

982a/JAL/9-30-86

ATTORNEY GENERAL

INTERGOVERNMENTAL AGREEMENT

DETERMINATION

Pursuant to A.R.S. §§ 11-952 and 11-952.01(B)(6), the foregoing Intergovernmental Agreement, being Attorney General Contract No. KIR 86-1319-CIV, has been submitted to the Attorney General as the attorney for the Department of Administration.

The undersigned Assistant Attorney General has determined that said agreement is in proper form and is within the powers and authority granted under the laws of the State of Arizona to the Department of Administration.

DATED this 1st day of October, 1986.

ROBERT K. CORBIN
The Attorney General

Dennis T. Fenwick
Assistant Attorney General
255-1610