

# Maricopa County

Annual Expenditure  
Limitation Report

Year Ended June 30, 2017



A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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## **Independent accountants' report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Maricopa County, Arizona

### **Annual Expenditure Limitation Report**

We have examined the accompanying Annual Expenditure Limitation Report of Maricopa County (County) for the year ended June 30, 2017, and the County's related notes to the report. The County's management is responsible for presenting this report in accordance with the Uniform Expenditure Reporting System (UERS) as required by Arizona Revised Statutes (A.R.S.) §41-1279.07 and in accordance with the Arizona Constitution, Article IX, Section 20 (Section 20). The criteria is described in Note 1 on page 6. Our responsibility is to express an opinion on this report based on our examination.

### **Accountants' responsibility**

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

### **Basis for adverse opinion**

Our examination disclosed that the County improperly excluded contributions it made toward unfunded pension liabilities from expenditures subject to its expenditure limitation. Unfunded pension liability contributions are not excludable expenditures from amounts subject to an entity's expenditure limitation in accordance with the UERS and Section 20. If the County had not excluded contributions for unfunded pension liabilities, its total expenditures subject to the expenditure limitation would have increased by \$57,526,376. Consequently, the County's total expenditures under its expenditure limitation would have been \$3,343,041 rather than the \$60,869,417 it reported.

The UERS permits the exclusion of only those expenditures authorized by the Arizona Constitution from expenditure limitations. For example, Section 20(3)(d)(i) of the Arizona Constitution authorizes an entity to exclude expenditures that have resulted from its long-term obligations for which the entity received amounts

or property from issuing or incurring the obligation. Accordingly, expenditures related to bonds, capital lease agreements, and installment purchase agreements are considered permissible exemptions from expenditure limitations. To illustrate, when an entity issues bonds it receives cash or when it enters into a capital lease agreement or installment purchase agreement it receives property. Therefore, under Section 20, the expenditures for the principal and interest payments on these bonds, capital lease agreements, or installment purchase agreements are not subject to an entity's expenditure limitation and are categorized by the UERS as an allowable debt service requirements exclusion.

This exclusion does not apply to unfunded pension liability contributions. Specifically, the County's incurrence of unfunded pension liabilities did not result in the County's receipt of amounts or property. Instead, these liabilities resulted from employee benefit costs the County incurred but has not yet paid. Unfunded pension liabilities result when required pension contributions and pension plan investment earnings on those contributions are inadequate to cover the cost of pension benefits employees earned. Because the County's incurrence of unfunded pension liabilities did not result in its receipt of amounts or property, the exclusion authorized by Section 20(3)(d)(i) is inapplicable and the County's unfunded pension liability contribution exclusion is not allowed.

The County interprets Section 20(3)(d)(i) as authorizing the exemption of any contract concerning a long-term obligation from the expenditure limitation regardless of whether the contract is related to any amounts or property received from the issuance or incurrence of bonds or other lawful long-term obligations. Such an interpretation could apply to many expenditures beyond unfunded pension liability contributions, thus greatly increasing the amount of expenditures that are not subject to the expenditure limitation. Although the County currently excluded only pension contributions related to the unfunded pension liability, it is important to consider the impact the County's interpretation would have on other transactions that political subdivisions may wish to exclude from their expenditure limitations now and in the future. In particular, political subdivisions could structure future contracts to circumvent the constitutional expenditure limitation by including payment terms that extend beyond 1 year, which would establish a long-term obligation and render the constitutional expenditure limitation meaningless.

## **Opinion**

In our opinion, because of the significance of the matters described in the preceding basis for adverse opinion paragraphs, the County's Annual Expenditure Limitation Report referred to above is not presented in accordance with the UERS as required by A.R.S. §41-1279.07 and in accordance with Section 20, in all material respects.

Lindsey Perry, CPA, CFE  
Auditor General

January 8, 2019

**Maricopa County**  
**Annual Expenditure Limitation Report—part I**  
**Year ended June 30, 2017**

1. Economic Estimates Commission expenditure limitation	\$1,290,008,753
2. Amount subject to the expenditure limitation (total amount from part II, line C)	<u>1,229,139,336</u>
3. Amount under the expenditure limitation	<u>\$ 60,869,417</u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of chief fiscal officer: (Signature removed for website presentation.)

Name and title: Shelby Scharbach, Assistant County Manager and Chief Financial Officer

Telephone number: (602) 506-1367 Date: 1-2-19

See accompanying notes to report.

**Maricopa County**  
**Annual Expenditure Limitation Report—part II**  
**Year ended June 30, 2017**

Description	<u>Governmental funds</u>	<u>Internal service funds</u>	<u>Fiduciary funds</u>	<u>Total</u>
A. Amounts reported on the reconciliation, line D	\$ 1,835,121,269	\$ 218,844,693	\$ 8,198,090,235	\$ 10,252,056,197
B. Less exclusions claimed:				
Debt service requirements (Note 2)	222,842,390	425,194		223,267,584
Dividends, interest, and gains on the sale or redemption of investment securities (Note 3)	1,956,150	254,268		2,210,418
Trustee or custodian (Note 4)	19,011,200		8,198,090,235	8,217,101,435
Grants and aid from the federal government (Note 5)	123,777,114			123,777,114
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 6)	7,124,621			7,124,621
Amounts received from the State of Arizona (Note 7)	45,646,209			45,646,209
Quasi-external interfund transactions (Note 8)		213,492,857		213,492,857
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 9)	78,973,449			78,973,449
Contracts with other political subdivisions (Note 10)	49,210,702			49,210,702
Refunds, reimbursements, and other recoveries (Note 11)	3,918,466	574,876		4,493,342
Amounts received for distribution to school districts (Note 12)	6,545,521			6,545,521
Prior years carryforward (Note 13)	47,012,363	4,061,246		51,073,609
Total exclusions claimed	<u>606,018,185</u>	<u>218,808,441</u>	<u>8,198,090,235</u>	<u>9,022,916,861</u>
C. Amounts subject to the expenditure limitation	<u>\$ 1,229,103,084</u>	<u>\$ 36,252</u>	<u>\$ -</u>	<u>\$ 1,229,139,336</u>

See accompanying notes to report.

**Maricopa County**  
**Annual Expenditure Limitation Report—reconciliation**  
**Year ended June 30, 2017**

Description	Governmental funds	Enterprise funds	Internal service funds	Fiduciary funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 2,146,018,879	\$ 21,540,873	\$ 215,849,788	\$ 8,198,090,235	\$ 10,581,499,775
B. Subtractions:					
Items not requiring use of current financial resources:					
Depreciation			1,183,208		1,183,208
Loss on disposal of capital assets			3,084		3,084
Claims incurred but not reported (IBNR) (Note 14)			149,998,216		149,998,216
Pension expense (Note 15)		112,372	1,261,176		1,373,548
Expenditures of separate legal entities established under Arizona Revised Statutes (A.R.S.) (Note 16)	124,127,628	75,441,149			199,568,777
Long-term care contributions the State Treasurer withheld (Note 17)	155,173,500				155,173,500
Required fees/reimbursements made to Arizona state agencies (Note 19)	2,352,978				2,352,978
Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements	3,404,460				3,404,460
Involuntary court judgments (Note 18)	25,839,044		1,981,974		27,821,018
Total subtractions	<u>310,897,610</u>	<u>75,553,521</u>	<u>154,427,658</u>		<u>540,878,789</u>
C. Additions:					
Principal payments on long-term debt		85,825			85,825
Acquisition of capital assets		53,704,804	753,960		54,458,764
Amounts paid in the current year but reported as expenses in previous years:					
Claims previously recognized as IBNR (Note 14)			155,650,834		155,650,834
Pension contributions paid in the current year (Note 15)		222,019	1,017,769		1,239,788
Total additions	-	<u>54,012,648</u>	<u>157,422,563</u>	-	<u>211,435,211</u>
D. Amounts reported on part II, line A	<u>\$ 1,835,121,269</u>	<u>\$ -</u>	<u>\$ 218,844,693</u>	<u>\$ 8,198,090,235</u>	<u>\$ 10,252,056,197</u>

See accompanying notes to report.

# **Maricopa County**

## **Notes to Annual Expenditure Limitation Report**

### **Year ended June 30, 2017**

#### **Note 1 - Summary of significant accounting policies**

The Annual Expenditure Limitation Report (AELR) is presented as prescribed by the uniform expenditure reporting system (UERS), as required by Arizona Revised Statutes (A.R.S.) §41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS requirements, a note to the AELR is presented below for any exclusion claimed on part II and each subtraction or addition in the reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the statement of revenues, expenditures, and changes in fund balances for the governmental funds; statement of revenues, expenses, and changes in fund net position for the proprietary funds; statement of cash flows for the proprietary funds; and the statement of changes in fiduciary net position for the fiduciary funds.

#### **Note 2**

The exclusions claimed for debt service requirements of \$222,842,390 in the governmental funds consists of expenditures of \$14,465,078, \$40,389,971, \$899,137, \$1,153,504, \$146,398, \$47,094, and \$165,741,208 reported as general government; public safety; highways and streets; health, welfare, and sanitation; culture and recreation; education; and principal and interest, respectively. The exclusion of \$425,194 in the internal service funds consists of personal services.

#### **Note 3**

The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$1,956,150 in the governmental funds includes interest income expended. Remaining interest income revenues of \$4,506,577 and interest on delinquent taxes of \$14,177,841 have been carried forward to future years. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$254,268 in the internal service funds consists of interest on investments, which was reported as investment income.

#### **Note 4**

The exclusion claimed for trustee or custodian in the governmental funds consists of \$19,011,200 in county contributions to the Arizona Health Care Cost Containment System (AHCCCS) for acute care, uncompensated care, and administrative costs; and in the fiduciary funds, the exclusion consists of \$8,198,090,235 in distributions to investment pool participants.

#### **Note 5**

The exclusion claimed for grants and aid from the federal government of \$123,777,114 consists of federal grants reported as intergovernmental revenues.

# Maricopa County

## Notes to Annual Expenditure Limitation Report

### Year ended June 30, 2017

#### Note 6

The exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes of \$7,124,621 in the governmental funds, consists of \$5,394,835, \$209,182, \$1,515,604, and \$5,000 reported as intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous revenues, respectively.

#### Note 7

The exclusion claimed for amounts received from the State of Arizona of \$45,646,209 in the governmental funds consists of \$41,818,122, \$2,880, \$3,820,552, and \$4,655 reported as intergovernmental revenues, interest income, charges for services, and miscellaneous, respectively. Remaining excludable revenues of \$1,141,412 and \$58,541 recorded as intergovernmental revenues and charges for services, respectively, have been carried forward to future years.

#### Note 8

The exclusion claimed for quasi-external interfund transactions in the internal service funds of \$213,492,857 represents charges for services revenues paid from other county funds to the internal service funds. Excludable internal service funds charges for services revenues of \$5,430,416 were unexpended and have been carried forward to future years.

#### Note 9

The exclusion claimed in the governmental funds for highway user revenues in excess of those received in fiscal year 1980 is derived by subtracting the 1979-80 base year highway user fees of \$14,879,726 from the total of highway user revenues received of \$110,015,688, which was reported as intergovernmental revenues. Remaining excludable revenues of \$16,162,513 recorded as intergovernmental revenues have been carried forward to future years.

#### Note 10

The exclusion claimed for contracts with other political subdivisions of \$49,210,702 in the governmental funds consists of \$1,429,014 and \$47,781,688 reported as intergovernmental revenues and charges for services, respectively. Remaining excludable revenues of \$88,001 and \$14,023,869 recorded as intergovernmental revenues and charges for services, respectively, have been carried forward to future years.

#### Note 11

The exclusion claimed for refunds, reimbursements, and other recoveries of \$3,918,466 in the governmental funds consists of various expenditure reimbursements of \$117,997, \$434,401, \$2,573,263, and \$792,805 reported as intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous revenues, respectively. Remaining excludable revenues of \$446,401 recorded as fines and forfeits has been carried forward to future years. The exclusion claimed for refunds, reimbursements, and other recoveries of \$574,876 in the internal service funds was reported as miscellaneous revenues.

**Maricopa County**  
**Notes to Annual Expenditure Limitation Report**  
**Year ended June 30, 2017**

**Note 12**

The exclusion claimed for amounts received for distribution to school districts in the governmental funds consists of federal, state, and county revenues of \$6,545,521 recorded as education expenditures for operating accommodation schools.

**Note 13**

Prior years carryforward consists of constitutionally excludable revenues unexpended in the year of receipt that have been accumulated and were expended in the current year as follows:

<b>Description</b>	<b>Governmental funds</b>	<b>Internal service funds</b>
	<u>                    </u>	<u>                    </u>
Debt proceeds	\$36,789,490	
Dividends, interest, and gains on the sale or redemption of investment securities	13,096	
Amounts received from the State of Arizona	500,911	
Quasi-external interfund transactions		\$4,061,246
Grants and aid from the federal government	792,124	
Contracts with other political subdivisions	8,790,996	
Refunds, reimbursements, and other recoveries		
Amounts received for distribution to school districts	125,746	
Total prior years carryforward expended	<u>\$47,012,363</u>	<u>\$4,061,246</u>

**Note 14**

The subtraction of \$149,998,216 for claims incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the internal service funds. The addition of \$155,650,834 for claims paid in the current year but reported as expenses incurred but not reported in previous years consists of cash payments in the current year for claims recognized as an expense in previous years in the internal service funds.

**Note 15**

The subtractions of \$112,372 and \$1,261,176 for pension expense consist of the change in the net pension liability recognized in the current year in the enterprise and internal service funds, respectively. The addition of \$222,019 and \$1,017,769 for pension contributions paid in the current year consists of the required pension contributions made to the Arizona State Retirement System from the enterprise and internal service funds, respectively.

**Maricopa County**  
**Notes to Annual Expenditure Limitation Report**  
**Year ended June 30, 2017**

**Note 16**

The subtraction of \$199,568,777 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts included within the County’s reporting entity, but not included in the Economic Estimates Commission base limit calculations, and are reported in the governmental and enterprise funds categories in the fund financial statements:

<b>Special Assessment Districts</b>	<b>Governmental funds</b>	<b>Enterprise funds</b>
Public safety	\$ 33,467,915	
Culture and recreation	26,869,383	
Capital outlay	60,085,167	
Principal	3,413,449	
Interest	290,364	
Other expenses	1,350	
Housing Authority		<u>\$75,441,149</u>
Total	<u>\$124,127,628</u>	<u>\$75,441,149</u>

**Note 17**

The subtraction of \$155,173,500 for long-term care contributions the State Treasurer withheld consists of transaction privilege taxes the State Treasurer withheld to meet the County’s share of long-term care costs that was reported as revenue and an offsetting expenditure in the County’s governmental funds. Consequently, this expenditure has been subtracted on the reconciliation.

**Note 18**

The subtraction of \$25,839,044 in the governmental funds and \$1,981,974 in the internal service funds consists of payments for involuntary court judgments against Maricopa County.

**Note 19**

The subtraction of \$2,352,978 for required fees/reimbursements paid to Arizona state agencies consists of payments made to the Arizona Department of Health Services pursuant to Laws 2016, Chapter 122, Sections 16 and 17, for inpatient competency restoration treatment and committing an individual the court determined to be sexually violent, which were recorded as health, welfare, and sanitation expenditures.

**Note 20**

Revenue that is constitutionally excludable and unexpended in the year of receipt may be accumulated and expended in future years. A summary of the revenue balances to be expended in future years is as follows:

**Maricopa County**  
**Notes to Annual Expenditure Limitation Report**  
**Year ended June 30, 2017**

<b>Description</b>	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>
Debt proceeds	\$ 36,789,490	\$ 7,211,634	\$36,789,490	\$ 7,211,634
Dividends, interest, and gains on the sale or redemption of investment securities	258,295,231	18,684,418	13,096	276,966,553
Grants and aid from the federal government	63,932,475		792,124	63,140,351
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	2,569,774			2,569,774
Amounts received from the State of Arizona	10,880,431	1,199,953	500,911	11,579,473
Quasi-external interfund transactions: Governmental funds	48,426			48,426
Quasi-external interfund transactions: Internal service funds	62,925,961	5,430,416	4,061,246	64,295,131
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	225,995,506			225,995,506
Highway user revenues in excess of those received in fiscal year 1979-80	120,014,338	16,162,513		136,176,851
Contracts with other political subdivisions	88,061,102	14,111,870	8,790,996	93,381,976
Refunds, reimbursements, and other recoveries	7,123,975	446,401		7,570,376
Amounts received for distribution to school districts	1,233,219		125,746	1,107,473
Total carryforward	<u>\$877,869,928</u>	<u>\$63,247,205</u>	<u>\$51,073,609</u>	<u>\$890,043,524</u>

