

Maricopa County

Annual Expenditure
Limitation Report

Year Ended June 30, 2018



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

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 (AELR) of Maricopa County (County) for the year ended June 30, 2018, 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. The criteria is described in Note 1 on page 5. 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 opinion.

Opinion

In our opinion, the County's AELR referred to above is presented in accordance with the UERS as required by A.R.S. §41-1279.07 and in accordance with the Arizona Constitution, Article IX, Section 20, in all material respects.

Emphasis of matter

As indicated in Note 2 on page 5, the County's position is that amounts it contributed toward unfunded pension liabilities are excludable from expenditures subject to its expenditure limitation. This position is contradictory to Arizona Constitution, Article IX, Section 20, and does not comport with Arizona Attorney General Opinion I19-004, which opined that such amounts are not excludable. However, the County did not exclude such amounts in its AELR referred to above. Therefore, our opinion is not modified with respect to this matter.

Lindsey Perry, CPA, CFE
Auditor General

January 3, 2020

Maricopa County
Annual Expenditure Limitation Report—Part I
Year ended June 30, 2018

1. Economic Estimates Commission expenditure limitation	\$1,326,363,336
2. Amount subject to the expenditure limitation (total amount from part II, line C)	<u>1,326,363,335</u>
3. Amount under the expenditure limitation	<u>\$ 1</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: January 3, 2020

Maricopa County
Annual Expenditure Limitation Report—Part II
Year ended June 30, 2018

Description	Governmental funds	Internal service funds	Fiduciary funds	Total
A. Amounts reported on the reconciliation, line D	\$ 1,914,493,209	\$ 219,359,471	\$ 8,456,689,943	\$ 10,590,542,623
B. Less exclusions claimed:				
Debt proceeds	15,408,068			15,408,068
Debt service requirements (Note 2)	123,365,263			123,365,263
Dividends, interest, and gains on the sale or redemption of investment securities (Note 3)	1,390,103	349,021		1,739,124
Trustee or custodian (Note 4)	18,783,100		8,456,689,943	8,475,473,043
Grants and aid from the federal government (Note 5)	131,877,969			131,877,969
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 6)	7,301,442			7,301,442
Amounts received from the State of Arizona (Note 7)	49,250,596			49,250,596
Quasi-external interfund transactions (Note 8)		208,576,661		208,576,661
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	4,790,960			4,790,960
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 9)	93,459,200			93,459,200
Contracts with other political subdivisions (Note 10)	44,296,918			44,296,918
Refunds, reimbursements, and other recoveries (Note 11)	3,213,989	871,949		4,085,938
Amounts received for distribution to school districts (Note 12)	3,179,714			3,179,714
Prior years carryforward (Note 13)	91,924,914	9,449,478		101,374,392
Total exclusions claimed	<u>588,242,236</u>	<u>219,247,109</u>	<u>8,456,689,943</u>	<u>9,264,179,288</u>
C. Amounts subject to the expenditure limitation	<u>\$ 1,326,250,973</u>	<u>\$ 112,362</u>	<u>\$ -</u>	<u>\$ 1,326,363,335</u>

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—Reconciliation
Year ended June 30, 2018

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	\$ 2,227,113,378	\$ 26,543,652	\$ 231,824,150	\$ 8,456,689,943	\$ 10,942,171,123
B. Subtractions:					
Items not requiring use of current financial resources:					
Depreciation			798,971		798,971
Loss on disposal of capital assets			8,148		8,148
Claims incurred but not reported (IBNR) (Note 14)			159,633,265		159,633,265
Pension and other postemployment benefits (OPEB) expense (Note 15)		(90,430)	3,640,381		3,549,951
Expenditures of separate legal entities established under Arizona Revised Statutes (A.R.S.) (Note 16)	105,098,275	53,584,575			158,682,850
Long-term care contributions the State Treasurer withheld (Note 17)	165,477,400				165,477,400
Required fees/reimbursements made to Arizona state agencies (Note 19)	12,724,991				12,724,991
Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at the agreement's inception	126,974				126,974
Involuntary court judgments (Note 18)	29,192,529		9,527,731		38,720,260
Total subtractions	<u>312,620,169</u>	<u>53,494,145</u>	<u>173,608,496</u>		<u>539,722,810</u>
C. Additions:					
Principal payments on long-term debt		7,263,729			7,263,729
Acquisition of capital assets		19,464,800	656,043		20,120,843
Amounts paid in the current year but reported as expenses in previous years:					
Claims previously recognized as IBNR (Note 14)			159,243,688		159,243,688
Pension contributions paid in the current year (Note 15)		221,964	1,244,086		1,466,050
Total additions		<u>26,950,493</u>	<u>161,143,817</u>		<u>188,094,310</u>
D. Amounts reported on part II, line A	<u>\$ 1,914,493,209</u>	<u>\$ -</u>	<u>\$ 219,359,471</u>	<u>\$ 8,456,689,943</u>	<u>\$ 10,590,542,623</u>

See accompanying notes to report.

Maricopa County

Notes to Annual Expenditure Limitation Report

Year ended June 30, 2018

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 on other long-term obligations of \$123,365,263 in the governmental funds consists of debt service – principal.

Long-term pension obligation exclusions for the governmental funds and internal service funds of \$59,511,140 and \$112,362, respectively are not included in the above exclusions claimed. Maricopa County's position is that Section 20 of the Arizona Constitution expressly allows the exclusion of payments made against a political subdivision's unfunded accrued pension liability from its expenditure limit. This submission does not constitute, and shall not be interpreted or construed to constitute, a waiver, contradiction, or abandonment of that position. Nevertheless, at the request of government leaders in order to pursue legislative clarification and at the request of the Auditor General, Maricopa County hereby makes this Expenditure Limitation Report submission with payments towards Maricopa County's unfunded accrued pension liability not excluded, as directed by the Auditor General's instructions.

Note 3

The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$1,390,103 in the governmental funds includes interest income expended of \$1,389,678 and interest on delinquent taxes of \$425. Remaining interest income revenues of \$8,041,623 and interest on delinquent taxes of \$12,535,445 have been carried forward to future years. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$349,021 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 \$18,783,100 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 \$8,456,689,943 in distributions to investment pool participants.

Maricopa County

Notes to Annual Expenditure Limitation Report

Year ended June 30, 2018

Note 5

The exclusion claimed for grants and aid from the federal government of \$131,877,969 consists of federal grants reported as intergovernmental revenues.

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 \$7,301,442 in the governmental funds, consists of \$6,767,980, \$147,539, \$385,923 reported as intergovernmental revenues, charges for services and fines and forfeits, respectively.

Note 7

The exclusion claimed for amounts received from the State of Arizona of \$49,250,596 in the governmental funds consists of \$44,311,419 and \$4,939,177 reported as intergovernmental revenues and charges for services, respectively. Remaining excludable revenues of \$5,758,674, \$175,727 and \$448,048 recorded as intergovernmental revenues, charges for services and miscellaneous respectively, have been carried forward to future years.

Note 8

The exclusion claimed for quasi-external interfund transactions in the internal service funds of \$208,576,661 represents charges for services revenues paid from other county funds to the internal service funds. Excludable internal service funds charges for services revenues of \$9,670,691 were unexpended and have been carried forward to future years.

Note 9

The exclusion 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 \$114,233,608 claimed in the governmental funds, which was reported as intergovernmental revenues. The exclusion claimed totaled \$93,459,200, with the remaining balance not excluded.

Note 10

The exclusion claimed for contracts with other political subdivisions of \$44,296,918 in the governmental funds consists of \$3,210,759 and \$41,086,159 reported as intergovernmental revenues and charges for services, respectively. Remaining excludable charges for services revenues of \$11,004,683 were unexpended and have been carried forward to future years. In addition, \$10,747,749 of the exclusions claimed above represents additional exclusion amounts needed as a result of the omission of the long-term pension obligation exclusion. These amounts represent additional exclusions that in the County's opinion should have been available to carryforward, and thus represent a loss in available carryforward. See Note 2 for further information on the County's position regarding excludability of long-term pension obligations.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

Note 11

The exclusion claimed for refunds, reimbursements, and other recoveries of \$3,213,989 in the governmental funds consists of various expenditure reimbursements of \$83,031, \$785,319, \$1,657,076, \$1,000, and \$687,563 reported as intergovernmental revenues, charges for services, fines and forfeits, license and permits, and miscellaneous revenues, respectively. The exclusion claimed for refunds, reimbursements, and other recoveries of \$871,949 in the internal service funds was reported as miscellaneous revenues.

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 \$3,179,714 recorded as education expenditures for operating accommodation schools.

Note 13

Prior years carryforward in the governmental and internal service funds consists of constitutionally excludable revenues unexpended in the year of receipt that have been accumulated and were expended in the current year as follows. \$2,898,365 in carryforward reduction for "Contracts with other political subdivisions" is a result of the omission of the long-term pension obligation exclusion. These amounts represent additional amounts that in the County's opinion should have been available to carryforward, and thus represent a loss in available carryforward. See Note 2 for further information on the County's position regarding excludability of long-term pension obligations.

Description	Governmental funds	Internal service funds
	<u> </u>	<u> </u>
Debt proceeds	\$ 7,211,634	
Dividends, interest, and gains on the sale or redemption of investment securities	10,439,561	
Amounts received from the State of Arizona	208,435	
Quasi-external interfund transactions		\$9,449,478
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	54,788,003	
Highway user revenues in excess of those received in fiscal year 1979-80	14,553,894	
Contracts with other political subdivisions	3,477,290	
Refunds, reimbursements, and other recoveries	621,414	
Amounts received for distribution to school districts	624,683	
Total prior years carryforward expended	<u>\$91,924,914</u>	<u>\$9,449,478</u>

Note 14

The subtraction of \$159,633,265 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 \$159,243,688 for claims paid in the current year, but reported as expenses incurred but not reported in

Maricopa County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

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 (\$90,430) and \$3,640,381 for pension and other post-employment benefits (OPEB) expenses consist of the change in the net pension and OPEB liabilities recognized in the current year in the enterprise and internal service funds, respectively. Consequently, this expenditure has been subtracted on the reconciliation. The addition of \$221,964 and \$1,244,086 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.

Note 16

The subtraction of \$158,682,850 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:

Special Assessment Districts	Governmental funds	Enterprise funds
Public safety	\$ 34,281,989	
Culture and recreation	29,184,346	
Capital outlay	37,930,810	
Principal	3,487,651	
Interest	212,129	
Other expenses	1,350	
Housing Authority		<u>\$53,584,575</u>
Total	<u>\$105,098,275</u>	<u>\$53,584,575</u>

Note 17

The subtraction of \$165,477,400 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 \$29,192,529 in the governmental funds and \$9,527,731 in the internal service funds consists of payments for involuntary court judgments against Maricopa County.

Note 19

The subtraction of \$12,724,991 for required fees/reimbursements paid to Arizona state agencies consists of \$6,724,100 in public safety expenditures paid to the Arizona Department of Juvenile Corrections pursuant

Maricopa County

Notes to Annual Expenditure Limitation Report

Year ended June 30, 2018

to A.R.S. §41-2832 for committed youth confinement cost sharing; \$3,953,178 in general government expenditures paid to the Arizona Department of Administration pursuant to A.R.S. §42-5041 for administrative, program, and operating costs; and \$2,047,713 in health, welfare, and sanitation expenditures paid 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.

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 and the changes in those balances is shown in the table below. The reductions for "Grants and aid from the federal government" and "Amounts accumulated for the purchase of land, and the purchase or construction of buildings and improvements" of \$63,140,351 and \$69,463,212, respectively, include prior year lost carryforward of \$63,140,351 and \$14,675,209, respectively, as a result of expenditures that are not excludable. In addition, \$2,898,365 in carryforward reduction in "Contracts with other political subdivisions" is a result of the omission of the long-term pension obligation exclusion. These amounts represent additional amounts that in the County's opinion should have been available to carryforward, and thus represent a loss in available carryforward. See Note 2 for further information on the County's position regarding excludability of Long-term pension obligations.

Description	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Debt proceeds	\$ 7,211,634	\$101,006,604	\$ 7,211,634	\$101,006,604
Dividends, interest, and gains on the sale or redemption of investment securities	276,966,553	20,577,068	10,439,561	287,104,060
Grants and aid from the federal government	63,140,351		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	11,579,473	6,382,449	208,435	17,753,487
Quasi-external interfund transactions: Governmental funds	48,426			48,426
Quasi-external interfund transactions: Internal service funds	64,295,131	9,670,691	9,449,478	64,516,344
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	225,995,506		69,463,212	156,532,294
Highway user revenues in excess of those received in fiscal year 1979-80	136,176,851		14,553,894	121,622,957
Contracts with other political subdivisions	93,381,976	11,004,683	3,477,290	100,909,369
Refunds, reimbursements, and other recoveries	7,570,376	39,609	621,414	6,988,571
Amounts received for distribution to school districts	1,107,473		624,683	482,790
Total carryforward	<u>\$890,043,524</u>	<u>\$148,681,104</u>	<u>\$179,189,952</u>	<u>\$859,534,676</u>

