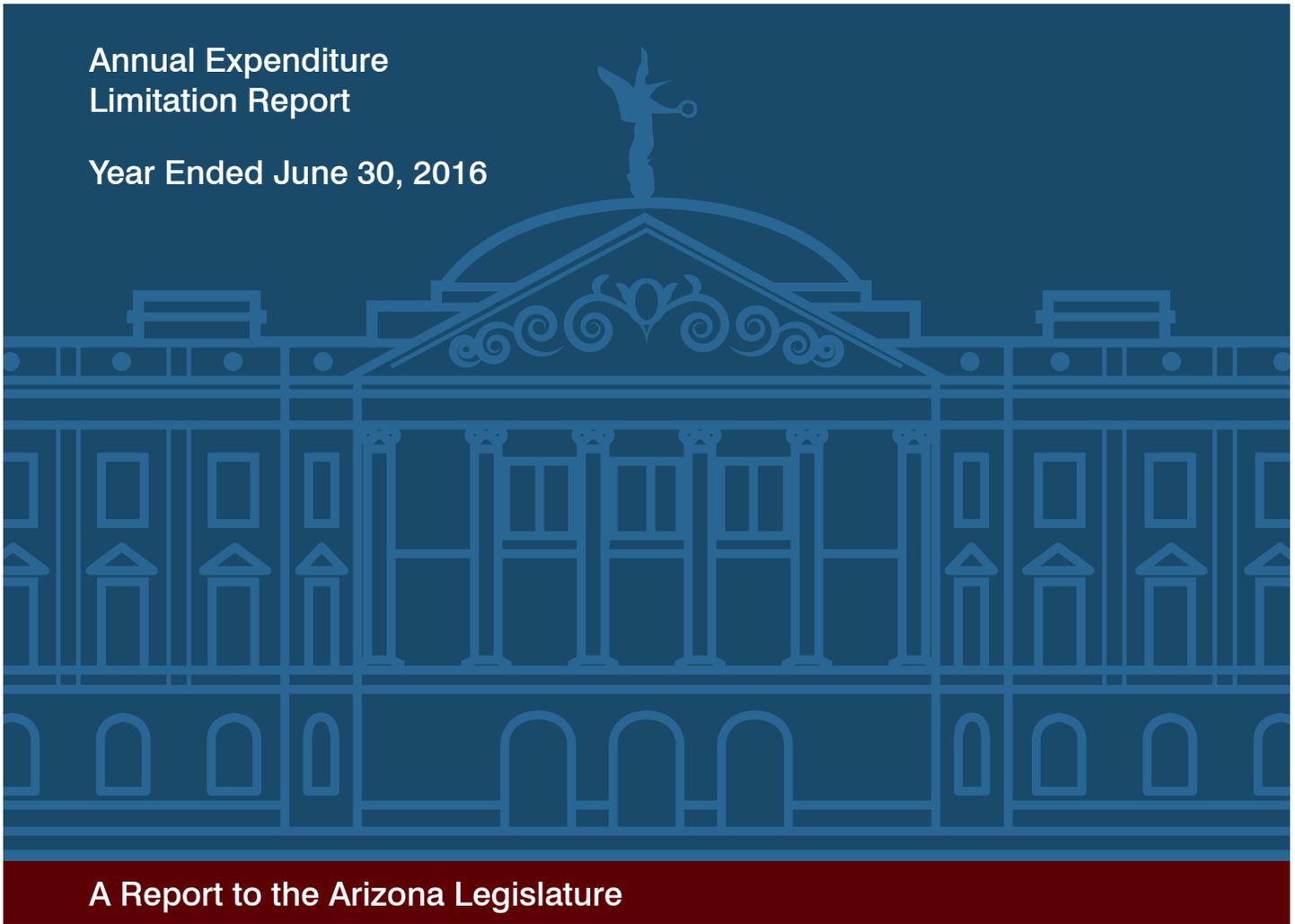


Maricopa County

Annual Expenditure
Limitation Report

Year Ended June 30, 2016



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

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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 of Maricopa County (County) for the year ended June 30, 2016, 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 \$43,398,125. Consequently, the County's total expenditures under its expenditure limitation would have been \$3,415,161 rather than the \$46,813,286 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, 2016

1. Economic Estimates Commission expenditure limitation	\$1,251,361,933
2. Amount subject to the expenditure limitation (total amount from part II, line C)	<u>1,204,548,647</u>
3. Amount under the expenditure limitation	<u>\$ 46,813,286</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, 2016

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	\$ 1,701,594,127	\$ 207,532,436	\$ 7,764,498,912	\$ 9,673,625,475
B. Less exclusions claimed:				
Debt service requirements on bonded indebtedness (Note 2)	37,412,214			37,412,214
Debt service requirements on other long-term obligations (Note 2)	56,546,211			56,546,211
Dividends, interest, and gains on the sale or redemption of investment securities (Note 3)	2,702,876	349,220		3,052,096
Trustee or custodian (Note 4)	19,203,200		7,764,498,912	7,783,702,112
Grants and aid from the federal government (Note 5)	135,247,402			135,247,402
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 6)	6,310,496			6,310,496
Amounts received from the State of Arizona (Note 7)	44,401,880			44,401,880
Quasi-external interfund transactions (Note 8)		197,918,614		197,918,614
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements (Note 9)	434,469			434,469
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 10)	65,739,727			65,739,727
Contracts with other political subdivisions (Note 11)	30,322,400			30,322,400
Refunds, reimbursements, and other recoveries (Note 12)	3,169,563	652,192		3,821,755
Amounts received for distribution to school districts (Note 13)	3,973,320			3,973,320
Prior years carryforward (Note 14)	91,733,419	8,460,713		100,194,132
Total exclusions claimed	<u>497,197,177</u>	<u>207,380,739</u>	<u>7,764,498,912</u>	<u>8,469,076,828</u>
C. Amounts subject to the expenditure limitation	<u>\$ 1,204,396,950</u>	<u>\$ 151,697</u>	<u>\$ -</u>	<u>\$ 1,204,548,647</u>

See accompanying notes to report.

Maricopa County
Annual Expenditure Limitation Report—reconciliation
Year ended June 30, 2016

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	\$ 2,013,387,179	\$ 22,170,085	\$ 224,645,523	\$ 7,764,498,912	\$ 10,024,701,699
B. Subtractions:					
Items not requiring use of current financial resources:					
Depreciation			917,738		917,738
Loss on disposal of capital assets			3,364		3,364
Claims incurred but not reported (IBNR) (Note 15)			162,234,331		162,234,331
Pension expense (Note 16)		138,806	929,274		1,068,080
Expenditures of separate legal entities established under Arizona Revised Statutes (A.R.S.) (Note 17)	124,651,439	22,702,298			147,353,737
Long-term care contributions withheld by the State Treasurer (Note 18)	153,303,200				153,303,200
Required fees/reimbursements made to Arizona state agencies (Note 20)	1,988,807				1,988,807
Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements	13,886,373				13,886,373
Involuntary court judgments (Note 19)	17,963,233		5,527,094		23,490,327
Total subtractions	<u>311,793,052</u>	<u>22,841,104</u>	<u>169,611,801</u>		<u>504,245,957</u>
C. Additions:					
Principal payments on long-term debt		114,205			114,205
Acquisition of capital assets		319,792	629,463		949,255
Amounts paid in the current year but reported as expenses in previous years:					
Claims previously recognized as IBNR (Note 15)			150,845,293		150,845,293
Pension contributions paid in the current year (Note 16)		237,022	1,023,958		1,260,980
Total additions		<u>671,019</u>	<u>152,498,714</u>	-	<u>153,169,733</u>
D. Amounts reported on part II, line A	<u>\$ 1,701,594,127</u>	<u>\$ -</u>	<u>\$ 207,532,436</u>	<u>\$ 7,764,498,912</u>	<u>\$ 9,673,625,475</u>

See accompanying notes to report.

Maricopa County

Notes to Annual Expenditure Limitation Report

Year ended June 30, 2016

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 §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, 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 exclusion claimed in the governmental funds for debt service requirements on bonded indebtedness consists of \$37,412,214 reported as principal retirement and interest expenses. The exclusion claimed for debt service requirements on other long-term obligations of \$56,546,211 in the governmental funds consists of \$13,148,086, \$14,554, \$117,032, and \$43,266,539 reported as principal retirement and interest, education, general government, and public safety expenses, respectively.

Note 3

The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$2,702,876 in the governmental funds includes interest income expended. Remaining interest income revenues of \$5,314,896 and tax revenue of \$11,017,258 have been carried forward to future years. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$349,220 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 \$19,203,200 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 \$7,764,498,912 in distributions to investment pool participants.

Note 5

The exclusion claimed for grants and aid from the federal government of \$135,247,402 consists of federal grants reported as intergovernmental revenues. Remaining excludable revenues of \$792,124 recorded as intergovernmental revenues have been carried forward to future years.

Maricopa County

Notes to Annual Expenditure Limitation Report

Year ended June 30, 2016

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 \$6,310,496 in the governmental funds consists of \$4,809,941, \$216,915, \$1,271,490, and \$12,150 reported as intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous revenues, respectively.

Note 7

The \$44,401,880 exclusion claimed for amounts received from the State of Arizona in the governmental funds consists of \$42,940,262 and \$1,461,618 reported as intergovernmental revenues and charges for services, respectively. Remaining excludable revenues of \$898,288 and \$44,371 recorded as intergovernmental revenues and charges for services, respectively, have been carried forward to future years.

Note 8

The \$197,918,614 exclusion claimed for quasi-external interfund transactions in the internal service funds represents charges for services revenues paid from other county funds to the internal service funds. Excludable internal service funds charges for services revenues of \$2,788 were unexpended and have been carried forward to future years.

Note 9

The \$434,469 exclusion claimed in the governmental funds for amounts accumulated for the purchase of land and the purchase or construction of buildings or improvements consists of capital outlay expenditures for the construction of new jail facilities made from sales tax revenues approved and exempted from the expenditure limitation by county voters.

Note 10

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 \$102,652,222 total of highway user revenues received, which was reported as intergovernmental revenues. Remaining excludable revenues of \$22,032,769 recorded as intergovernmental revenues have been carried forward to future years.

Note 11

The \$30,322,400 exclusion claimed in the governmental funds for contracts with other political subdivisions consists of \$8,260,380 and \$22,062,020 reported as intergovernmental revenues and charges for services, respectively. Remaining excludable revenues of \$219,558 and \$22,873,916 recorded as intergovernmental and charges for services, respectively, have been carried forward to future years.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2016

Note 12

The \$3,169,563 exclusion claimed for refunds, reimbursements, and other recoveries in the governmental funds consists of various expenditure reimbursements of \$337,200, \$161,247, \$2,514,577, and \$156,539 reported as intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous revenues, respectively. Remaining excludable revenues of \$2,982,209 and \$70,579 recorded as charges for services and miscellaneous revenues, respectively, have been carried forward to future years. The \$652,192 exclusion claimed for refunds, reimbursements, and other recoveries in the internal service funds was reported as miscellaneous revenues.

Note 13

The \$3,973,320 exclusion claimed in the governmental funds for amounts received for distribution to school districts consists of federal, state, and county revenues recorded as education expenditures for operating accommodation schools.

Note 14

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:

Description	Governmental funds	Internal service funds
Proceeds from other long-term obligations	\$83,686,582	
Dividends, interest, and gains on the sale or redemption of investment securities	27,552	
Amounts received from the State of Arizona	58,967	
Quasi-external interfund transactions		\$8,460,713
Amounts accumulated for the purchase of land and the purchase or construction of buildings or improvements	6,266,647	
Contracts with other political subdivisions	797,958	
Refunds, reimbursements, and other recoveries	267,390	
Amounts received for distribution to school districts	<u>628,323</u>	
Total prior years carryforward expended	<u>\$91,733,419</u>	<u>\$8,460,713</u>

Note 15

The \$162,234,331 subtraction 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 \$150,845,293 addition 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.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2016

Note 16

The \$138,806 and \$929,274 subtractions for pension expense consists of the change in the net pension liability recognized in the current year in the enterprise and internal service funds, respectively. The \$237,022 and \$1,023,958 additions 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 17

The \$147,353,737 subtraction 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	\$ 33,309,469	
Culture and recreation	30,148,446	
Capital outlay	57,478,531	
Principal	3,346,814	
Interest	366,829	
Other expenses	1,350	
Housing Authority		<u>\$22,702,298</u>
Total	<u>\$124,651,439</u>	<u>\$22,702,298</u>

Note 18

The subtraction for long-term care contributions the State Treasurer withheld consists of transaction privilege taxes 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 19

The subtraction of \$17,963,233 in the governmental funds and \$5,527,094 in the internal service funds consists of payments for involuntary court judgments against Maricopa County.

Note 20

The \$1,988,807 subtraction for required fees/reimbursements paid to Arizona state agencies consists of payments made to the Arizona Department of Health Services pursuant to Laws 2015, Chapter 14, Sections 8 and 9, 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.

Maricopa County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2016

Note 21

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:

Description	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Proceeds from other long-term obligations	\$120,476,072		\$ 83,686,582	\$ 36,789,490
Dividends, interest, and gains on the sale or redemption of investment securities	241,990,629	\$16,332,154	27,552	258,295,231
Grants and aid from the federal government	63,140,351	792,124		63,932,475
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	9,996,739	942,659	58,967	10,880,431
Quasi-external interfund transactions: Governmental funds	48,426			48,426
Quasi-external interfund transactions: Internal service funds	71,383,886	2,788	8,460,713	62,925,961
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	232,262,153		6,266,647	225,995,506
Highway user revenues in excess of those received in fiscal year 1979-80	97,981,569	22,032,769		120,014,338
Contracts with other political subdivisions	65,765,586	23,093,474	797,958	88,061,102
Refunds, reimbursements, and other recoveries	4,338,577	3,052,788	267,390	7,123,975
Amounts received for distribution to school districts	1,861,542		628,323	1,233,219
Total carryforward	<u>\$911,815,304</u>	<u>\$66,248,756</u>	<u>\$100,194,132</u>	<u>\$877,869,928</u>

