



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Expenditure Limitation Report

# Maricopa County

Year Ended June 30, 2004

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**Debra K. Davenport**  
Auditor General

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Maricopa County  
Report on Audit of Annual Expenditure Limitation Report  
Year Ended June 30, 2004

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

## Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of  
Maricopa County, Arizona

We have audited the accompanying Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2004. This report is the responsibility of the County's management. Our responsibility is to express an opinion on this report based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

The Maricopa Managed Care Systems had inadequate internal controls for processing medical claims for its healthcare programs consisting of Acute Health Care, Arizona Long-Term Care System, Senior Select, and Health Select programs. As a result, we could not rely on the Systems' financial reporting system to generate reliable information for medical expenses. Further, the Systems' records did not permit us to apply sufficient auditing procedures to determine whether the amounts reported for the Systems' medical expenses were accurate. The Maricopa Managed Care Systems' healthcare programs were reported as Enterprise Funds in the County's financial statements, and these medical expenses for fiscal year 2004 totaled \$464.8 million representing 52 percent of total Enterprise Funds' expenses. Consequently, we were unable to determine the accuracy of the Enterprise Funds' exclusions claimed for contracts with other political subdivisions and prior years carryforward on Part II, and total Enterprise Funds' expenses and other financing uses reported on the Reconciliation.

The accompanying Annual Expenditure Limitation Report was prepared for the purpose of complying with the uniform expenditure reporting system as discussed in Note 1, and is not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to audit certain medical expenses of the County's Enterprise Funds, as described in the third paragraph, the Annual Expenditure Limitation Report of Maricopa County for the year ended June 30, 2004, referred to above presents fairly, in all material respects, the information required by the uniform expenditure reporting system on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the members of the Arizona State Legislature and the Board of Supervisors, and for filing with the Auditor General of the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA  
Financial Audit Director

April 18, 2006

Maricopa County  
Annual Expenditure Limitation Report—Part I  
Year Ended June 30, 2004

1. Economic Estimates Commission expenditure limitation	\$746,745,914
2. Amount subject to the expenditure limitation (total amount from Part II, Line C)	<u>746,745,913</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: \_\_\_\_\_

Name and Title: Tom Manos, Chief Financial Officer

Telephone Number: (602) 506-3561 Date: April 18, 2006

See accompanying notes to report.

Maricopa County  
Annual Expenditure Limitation Report—Part II  
Year Ended June 30, 2004

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$1,184,967,766	\$843,229,148	\$74,310,739	\$9,559,556,953	\$11,662,064,606
B. Less exclusions claimed:					
Debt service requirements on bonded indebtedness (Note 2)	20,971,600				20,971,600
Proceeds from other long-term obligations (Note 3)	18,947,526	4,526,329			23,473,855
Debt service requirements on other long-term obligations (Note 4)	16,018,976	5,856,793	138,846		22,014,615
Dividends, interest, and gains on the sale or redemption of investment securities (Note 5)	17,334,700	806,681			18,141,381
Trustee or custodian (Note 6)	38,659,236			9,559,556,953	9,598,216,189
Grants and aid from the federal government (Note 7)	184,802,245	8,750,629			193,552,874
Amounts received from the State of Arizona (Note 8)	30,108,110	2,133,569			32,241,679
Quasi-external interfund transactions (Note 9)	315,329	64,251,965	74,171,893		138,739,187
Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements (Note 10)	77,841,952				77,841,952
Highway user revenues in excess of those received in fiscal year 1979-80 (Note 11)	79,602,003				79,602,003
Contracts with other political subdivisions (Note 12)	37,249,055	438,446,766			475,695,821
Refunds, reimbursements, and other recoveries (Note 13)	3,740,216	132,752,621			136,492,837
Amounts received for distribution to school districts (Note 14)	14,997,238				14,997,238
Prior years carryforward (Note 15)	<u>50,657,023</u>	<u>32,680,439</u>			<u>83,337,462</u>
Total exclusions claimed	<u>591,245,209</u>	<u>690,205,792</u>	<u>74,310,739</u>	<u>9,559,556,953</u>	<u>10,915,318,693</u>
C. Amounts subject to the expenditure limitation	<u>\$ 593,722,557</u>	<u>\$153,023,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 746,745,913</u>

See accompanying notes to report.

Maricopa County  
Annual Expenditure Limitation Report—Reconciliation  
Year Ended June 30, 2004

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses reported within the fund financial statements	\$1,397,997,614	\$896,586,250	\$77,117,151	\$9,559,556,953	\$11,931,257,968
B. Subtractions:					
Items not requiring use of working capital:					
Depreciation		14,169,057	419,330		14,588,387
Loss on disposal of capital assets			55,822		55,822
Bad debt expense (Note 16)		52,288,535			52,288,535
Claims that were reported but unpaid, or incurred but not reported (Note 17)			33,833,435		33,833,435
Expenditures of separate legal entities established under Arizona Revised Statutes (Note 18)	102,622,388				102,622,388
Long-term care contributions withheld by the State Treasurer (Note 19)	110,407,460				110,407,460
Total subtractions	<u>213,029,848</u>	<u>66,457,592</u>	<u>34,308,587</u>		<u>313,796,027</u>
C. Additions:					
Principal payments on long-term debt (Note 20)		8,831,266	126,783		8,958,049
Acquisition of capital assets		4,269,224	1,719,045		5,988,269
Claims paid in the current year but reported as expenses in previous years (Note 17)			29,656,347		29,656,347
Total additions		<u>13,100,490</u>	<u>31,502,175</u>		<u>44,602,665</u>
D. Amounts reported on Part II, Line A	<u>\$1,184,967,766</u>	<u>\$843,229,148</u>	<u>\$74,310,739</u>	<u>\$9,559,556,953</u>	<u>\$11,662,064,606</u>

See accompanying notes to report.

Maricopa County  
Notes to Annual Expenditure Limitation Report  
Year Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The Annual Expenditure Limitation Report (AELR) is presented on the basis of accounting prescribed by the uniform expenditure reporting system (UERS), as required by Arizona Revised Statutes §41-1279.07, which 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 Assets for the Proprietary Funds, Statement of Cash Flows for the Proprietary Funds, and the Statement of Changes in Fiduciary Net Assets for the Fiduciary Funds.

Note 2 - The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental Funds consists of principal retirement and interest expense reported in the General Obligation Fund.

Note 3 - The exclusion claimed for proceeds from other long-term obligations of \$18,947,526 in the Governmental Funds consists of refunding lease revenue bonds proceeds used to pay off long-term debt in the amount of \$12,353,671 reported as payment to escrow agent, capital lease proceeds expended of \$6,333,484 reported as capital outlay expenditures, and \$260,371 of issuance costs reported as other expenditures. The exclusion claimed for proceeds from other long-term obligations of \$4,526,329 in the Enterprise Funds consists of refunding lease revenue bond proceeds used to pay off long-term debt reported as proceeds from refunding lease revenue bonds on the Statement of Cash Flows.

Note 4 - The exclusion claimed for debt service requirements on other long-term obligations consists of principal retirement and interest expense of \$11,448,564 and \$4,570,412, respectively, in the Governmental Funds; \$5,856,793 reported as installment purchase contract payments, a portion of certificates of participation payments, a portion of lease revenue bond payments, and interest payments on long-term debt on the Statement of Cash Flows in the Enterprise Funds; and \$126,783 and \$12,063 reported as capital lease payments and interest payments on long-term debt, respectively, on the Statement of Cash Flows in the Internal Service Funds.

Note 5 - The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$17,334,700 in the Governmental Funds consists of interest on investments of \$5,684,799, which was reported as miscellaneous revenues, and interest on delinquent taxes of \$11,649,901, which was reported as taxes revenues. The exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities of \$806,681 in the Enterprise Funds consists of interest on investments, which was reported as investment income.

Maricopa County  
Notes to Annual Expenditure Limitation Report  
Year Ended June 30, 2004

- Note 6 - The exclusion claimed for trustee or custodian in the Governmental Funds consists of \$38,659,236 in contributions by the County to the Arizona Health Care Cost Containment System (AHCCCS) for acute care, and in the Fiduciary Funds, the exclusion consists of \$9,559,556,953 in distributions to investment pool participants.
- Note 7 - The exclusions claimed for grants and aid from the federal government of \$193,552,874 consists of the following:
- Governmental Funds—\$184,802,245. This amount consists of federal grants of \$85,687,245 reported as intergovernmental revenues, and disproportionate share settlements of \$99,115,000.
- Enterprise Funds—\$8,750,629. This amount consists of \$4,548,329 of federal grants reported as grant revenues, and \$4,202,300 of disproportionate share settlements reported as miscellaneous revenues.
- Note 8 - The exclusion claimed for amounts received from the State of Arizona of \$32,241,679 consists of the following:
- Governmental Funds—\$30,108,110. This amount consists of \$29,089,989 reported as intergovernmental revenues, and \$1,018,121 reported as miscellaneous revenues.
- Enterprise Funds—\$2,133,569. This amount was reported as grant revenues.
- Note 9 - The exclusion claimed for quasi-external interfund transactions of \$315,329 in the Governmental Funds represents service billings that were reported as miscellaneous and intergovernmental revenues. In the Enterprise Funds, the \$64,251,965 consists of \$43,428,280 reported as net patient service revenues and \$20,823,685 reported as charges for services revenues, both of which are Medical Center Fund recoveries received from other county funds. In the Internal Service Funds, the \$74,171,893 represents charges for services revenues paid from other county funds to the internal service funds. Remaining excludable internal service funds charges for services revenues of \$8,372,531 were unexpended and have been carried forward to future years.
- Note 10 - The \$77,841,952 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 the accumulation of sales tax revenues approved and exempted from the expenditure limitation by county voters.

Maricopa County  
Notes to Annual Expenditure Limitation Report  
Year Ended June 30, 2004

Note 11 - The exclusion claimed in the Governmental Funds for highway user revenues in excess of those received in fiscal year 1979-80 is derived by subtracting the 1979-80 base year highway user fees of \$14,879,726 from the total of highway user revenues and vehicle license revenues received of \$94,481,729, which was reported as intergovernmental revenues.

Note 12 - The exclusions claimed for contracts with other political subdivisions of \$475,695,821 consists of the following:

Governmental Funds— \$37,249,055. This amount consists of \$37,232,628 reported as intergovernmental revenues, and \$16,427 reported as miscellaneous revenues.

Enterprise Funds—\$438,446,766. This amount consists of \$423,535,491 reported as charges for services revenues, and \$14,911,275 reported as net patient service revenues.

Note 13 - The exclusion claimed for refunds, reimbursements, and other recoveries of \$3,740,216 in the Governmental Funds consists of various expenditure reimbursements reported as intergovernmental revenues, fines and forfeits revenues, and miscellaneous revenues. The exclusion claimed for refunds, reimbursements, and other recoveries of \$132,752,621 in the Enterprise Funds consists of Medicare reimbursements of \$41,602,262, AHCCCS reimbursements of \$73,249,820, health maintenance organizations reimbursements of \$16,873,016, and Champus reimbursements of \$630,275 reported as net patient service revenues, and intern reimbursements of \$397,248 reported as miscellaneous revenues.

Note 14 - The exclusion claimed in the Governmental Funds for amounts received for distribution to school districts consists of federal, state, and county revenues of \$14,997,238 reported as education expenditures for operating of accommodation schools.

Note 15 - 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:

Description	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Proceeds from other long-term obligations	\$ 3,351,226	
Dividends, interest, and gains on the sale or redemption of investment securities	2,109,596	\$ 2,760,339
Grants and aid from the federal government	898,529	
Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	225,606	
Amounts received from the State of Arizona	851,628	
Highway user revenues in excess of those received in fiscal year 1979-80	4,825,644	
Contracts with other political subdivisions	<u>38,394,794</u>	<u>29,920,100</u>
Total prior years carryforward expended	<u>\$50,657,023</u>	<u>\$32,680,439</u>

Maricopa County  
Notes to Annual Expenditure Limitation Report  
Year Ended June 30, 2004

Note 16 - The subtraction of \$52,288,535 for bad debt expense in the Enterprise Funds was reported as provision for doubtful accounts of \$35,350,408, and indigent patient direct write-offs of \$16,938,127.

Note 17 - The subtraction of \$33,833,435 for claims that were reported but unpaid, or 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 \$29,656,347 for claims paid in the current year consists of cash payments in the current year for claims reported as an expense in previous years in the Internal Service Funds.

Note 18 - The subtraction of \$102,622,388 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 Funds category in the fund financial statements:

<b>Special Assessment Districts</b>	
Public safety	\$ 29,180,463
Culture and recreation	14,047,076
Debt service	7,003,248
Capital outlay	<u>52,391,601</u>
Total	<u>\$102,622,388</u>

Note 19 - The amount of transaction privilege taxes withheld by the State Treasurer to meet the County's share of long-term care costs was reported as a revenue and an offsetting expenditure in the County's Governmental Funds. Consequently, this expenditure has been subtracted on the Reconciliation.

Note 20 - The addition of \$8,831,266 for principal payments on long-term debt in the Enterprise Funds consists of certificates of participation payments of \$5,075,368, installment purchase contract payments of \$1,098,475, and lease revenue bond payments of \$ 2,657,423, which exclude unspent proceeds that were returned to the County. The addition of \$126,783 for principal payments on long-term debt in the Internal Service Funds consists of capital lease payments.