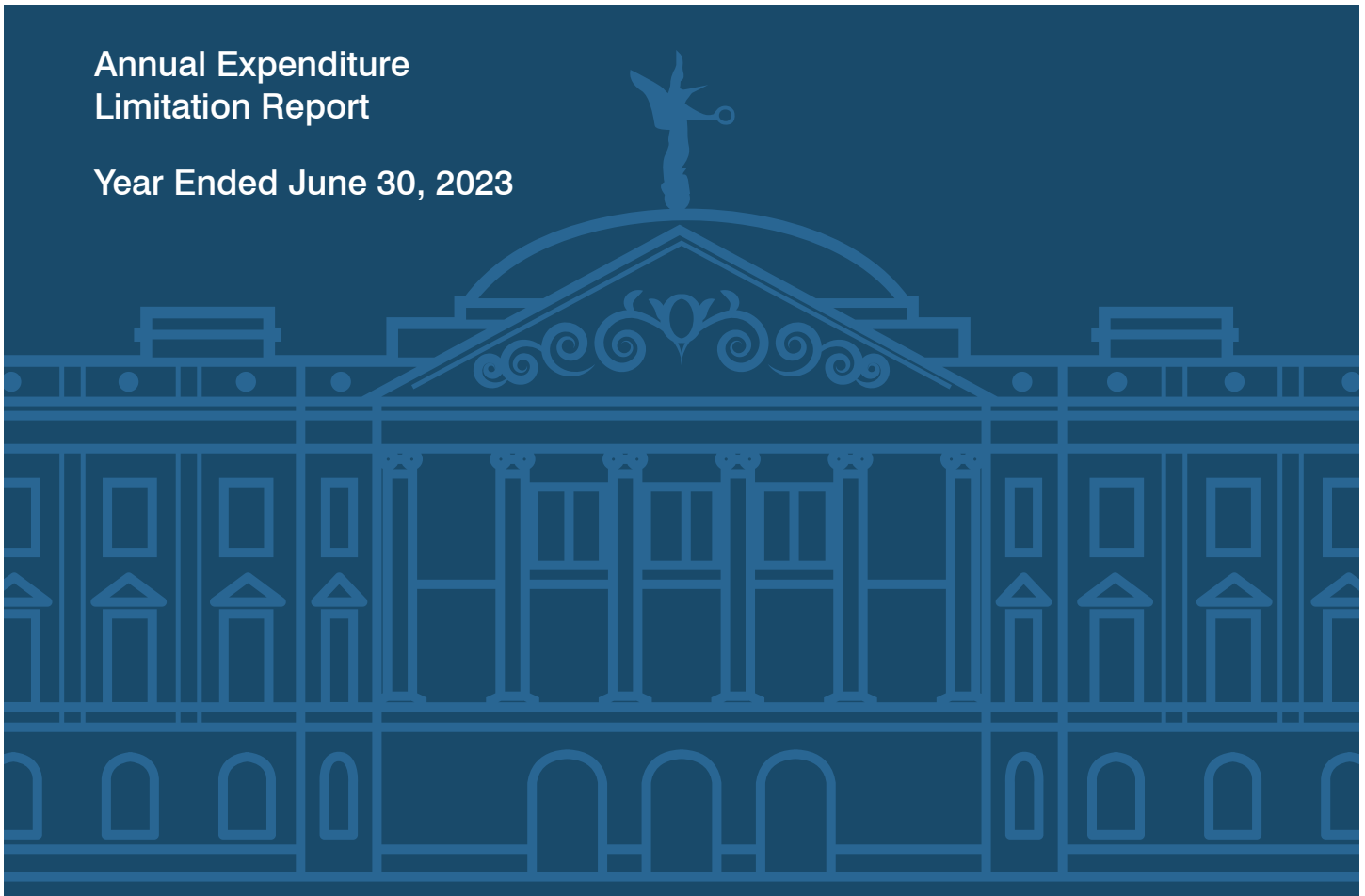


Pima County

Annual Expenditure
Limitation Report

Year Ended June 30, 2023



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent accountants' report

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

Annual Expenditure Limitation Report

We have examined the accompanying Annual Expenditure Limitation Report (report) of Pima County for the year ended June 30, 2023, and the related notes to the report. The County's management is responsible for presenting this report in accordance with the Uniform Expenditure Reporting System as described in Note 1. Our responsibility is to express an opinion on this report based on our examination.

Accountants' responsibilities

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 Uniform Expenditure Reporting System 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 depend on our judgment, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Opinion

In our opinion, the Annual Expenditure Limitation Report referred to above is presented in accordance with the Uniform Expenditure Reporting System as described in Note 1 in all material respects.

Emphasis of matter

As described in Note 18 of the report, the County restated its dividends, interest, and gains on the sale or redemption of investment securities carryforward beginning balance to correct an unallowable exclusion taken in fiscal year 2022. Our opinion is not modified with respect to this matter.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

October 17, 2024

Pima County
Annual Expenditure Limitation Report—Part I
Year ended June 30, 2023
(Amounts in thousands)

| | |
|---|----------------|
| 1. Economic Estimates Commission expenditure limitation | \$653,975 |
| 2. Amount subject to the expenditure limitation (total amount from Part II, line C) | <u>653,974</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: Ellen Moulton, Finance Director

Telephone number: (520) 724-8410 Date: October 17, 2024

See accompanying notes to report.

Pima County
Annual Expenditure Limitation Report—Part II
Year ended June 30, 2023
(Amounts in thousands)

| Description | Governmental funds | Enterprise funds | Internal service funds | Fiduciary funds | Total |
|--|-----------------------|---------------------|------------------------------|--------------------|-------------------|
| A. Amounts reported on the reconciliation, line D | \$ 1,101,345 | \$ 256,604 | \$ 156,714 | \$ 3,820,741 | \$ 5,335,404 |
| B. Less exclusions claimed: | | | | | |
| Debt proceeds (Note 2) | 50,313 | 29,621 | | | 79,934 |
| Debt service requirements (Note 3) | 100,307 | 108,087 | | | 208,394 |
| Dividends, interest, and gains on the sale or redemption of investment securities (Note 4) | 17,559 | 6,758 | 3,571 | | 27,888 |
| Trustee or custodian (Note 5) | 20,164 | | | 3,820,741 | 3,840,905 |
| Grants and aid from the federal government (Note 6) | 164,357 | | | | 164,357 |
| Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 7) | 6,826 | 1,676 | | | 8,502 |
| Amounts received from the State of Arizona (Note 6) | 45,762 | | | | 45,762 |
| Quasi-external interfund transactions (Note 8) | 25,371 | 342 | 133,160 | | 158,873 |
| Amounts accumulated for the purchase of land, buildings, or improvements (Note 6) | 537 | | | | 537 |
| Highway user revenues in excess of those received in fiscal year 1979-80 (Note 6) | 42,047 | | | | 42,047 |
| Contracts with other political subdivisions (Notes 6 and 9) | 10,483 | | 554 | | 11,037 |
| Refunds, reimbursements, and other recoveries (Note 10) | 353 | 9 | 5,888 | | 6,250 |
| Prior years carryforward (Note 11) | 68,596 | 14,448 | 3,900 | | 86,944 |
| Total exclusions claimed | <u>552,675</u> | <u>160,941</u> | <u>147,073</u> | <u>3,820,741</u> | <u>4,681,430</u> |
| C. Amounts subject to the expenditure limitation | <u>\$ 548,670</u> | <u>\$ 95,663</u> | <u>\$ 9,641</u> | <u>\$ -</u> | <u>\$ 653,974</u> |

See accompanying notes to report.

Pima County
Annual Expenditure Limitation Report—Reconciliation
Year ended June 30, 2023
(Amounts in thousands)

| 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 | \$ 1,277,777 | \$ 167,340 | \$ 146,946 | \$ 3,820,741 | \$ 5,412,804 |
| B. Subtractions: | | | | | |
| Items not requiring use of current financial resources: | | | | | |
| Depreciation | | 57,963 | 11,403 | | 69,366 |
| Loss on disposal of capital assets | | 2,081 | 129 | | 2,210 |
| Bad debt expense (Note 12) | | 433 | | | 433 |
| Pension and other postemployment benefits (OPEB) expense (Note 13) | | 1,434 | 200 | | 1,634 |
| Claims incurred but not reported (IBNR) (Note 14) | | | 76,350 | | 76,350 |
| Total expenditures of separate legal entities established under Arizona Revised Statutes (Note 15) | 97,209 | | | | 97,209 |
| Long-term care contributions the State Treasurer withheld (Note 16) | 54,351 | | | | 54,351 |
| Present value of net minimum lease, financed purchased, and subscription-based information technology arrangement (SBITA) contract payments recorded as expenditures at the agreements' inception (Note 17) | 24,872 | | | | 24,872 |
| Total subtractions | <u>176,432</u> | <u>61,911</u> | <u>88,082</u> | | <u>326,425</u> |
| C. Additions: | | | | | |
| Principal payments on long-term debt | | 99,266 | | | 99,266 |
| Capital asset acquisitions | | 48,727 | 15,009 | | 63,736 |
| Amounts paid in the current year but reported as expenses in previous years: | | | | | |
| Claims previously recognized as IBNR (Note 14) | | | 81,782 | | 81,782 |
| Pension and OPEB contributions paid in the current year (Note 13) | | 3,182 | 1,059 | | 4,241 |
| Total additions | | <u>151,175</u> | <u>97,850</u> | | <u>249,025</u> |
| D. Amounts reported on part II, line A | <u>\$ 1,101,345</u> | <u>\$ 256,604</u> | <u>\$ 156,714</u> | <u>\$ 3,820,741</u> | <u>\$ 5,335,404</u> |

See accompanying notes to report.

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

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, 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 \$50,313 exclusion claimed for debt proceeds in the governmental funds consists of expenditures made from certificates of participation proceeds of \$88,445 and premium of \$2,309. Remaining unspent, excludable amounts of \$40,441 have been carried forward to future years.

The \$29,621 exclusion claimed for debt proceeds in the enterprise funds consists of expenditures made from sewer revenue obligation proceeds of \$68,225 and premium of \$5,911. Remaining unspent, excludable amounts of \$44,515 have been carried forward to future years.

Note 3

The \$100,307 exclusion claimed for debt service requirements consists of \$81,856 principal retirement, \$18,433 interest expenditures and \$18 miscellaneous charges in the governmental funds.

The \$108,087 exclusion claimed for debt service requirements consists of \$99,266 principal retirement, \$8,781 interest expenditures and \$40 issuance cost on debt defeasance in the enterprise funds on Regional Wastewater Reclamation Department sewer revenue obligations.

Note 4

The \$17,559 exclusion claimed for dividends, interest, and gains on the sale or redemption of investment securities in the governmental funds includes investment earnings expended and interest on delinquent taxes. Of the total investment earnings revenues of \$20,500 in the governmental funds, \$12,852 was excluded and \$1,825 was included in the amounts deducted on the reconciliation as expenditures of separate legal entities. Interest on delinquent taxes expended of \$4,707 was recorded as tax revenue. Remaining unspent, excludable investment earnings revenues of \$5,823 have been carried forward to future years.

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

| | Governmental funds | Enterprise funds | Internal service funds |
|--|-----------------------|---------------------|---------------------------|
| Reconciliation of investment earnings | | | |
| Financial statements | | | |
| Investment earnings | \$20,500 | \$6,758 | \$3,571 |
| Total investment earnings as reported in the financial statements | <u>\$20,500</u> | <u>\$6,758</u> | <u>\$3,571</u> |
| AELR – Part II | | | |
| Investment earnings | \$20,500 | \$6,758 | \$3,571 |
| Interest on delinquent taxes | 4,707 | | |
| Separate legal entities | <u>(1,825)</u> | | |
| Subtotal of allowable exclusion | <u>23,382</u> | <u>6,758</u> | <u>3,571</u> |
| Actual exclusion taken | <u>17,559</u> | <u>6,758</u> | <u>3,571</u> |
| Carryforward to future years | <u>\$ 5,823</u> | <u>\$ -</u> | <u>\$ -</u> |

Note 5

The \$20,164 exclusion claimed for trustee or custodian in the governmental funds consists of \$16,767 in County contributions to the Arizona Health Care Cost Containment System for acute care, uncompensated care, and administrative costs; \$2,059 in sheriff commissary revenues; and \$1,338 in antiracketeering revenues.

Note 6

The following schedule presents revenues from which exclusions have been claimed for federal grants and aid, amounts received from the State of Arizona, highway user revenues, contracts with other political subdivisions and amounts accumulated for the purchase of land, buildings, and improvements in the governmental funds. The amounts excluded do not exceed expenditures of such revenues.

| Description | |
|--|------------------|
| Grants and aid from the federal government | \$164,480 |
| Amounts received from the State of Arizona | 53,606 |
| Highway user revenues in excess of those received in fiscal year 1979-80 | 70,088 |
| Contracts with other political subdivisions | 10,734 |
| Amounts accumulated for the purchase of land, buildings, and improvements | 537 |
| Nonexcludable revenues | <u>223,652</u> |
| Total intergovernmental revenues as reported in the fund financial statements | <u>\$523,097</u> |

Of the \$164,480 for grants and aid from the federal government, \$164,357 was excluded, \$120 was included in the amounts deducted on the reconciliation as expenditures of separate legal entities, and \$3 was carried forward to future years. Of the \$53,606 amount received from the State of Arizona, \$45,762 was excluded, \$1,479 was included in the amounts deducted on the reconciliation as expenditures of separate legal entities, and \$6,365 was carried forward to future years. Of the \$70,088 of highway user

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

revenues, \$42,047 was excluded, and \$28,041 was transferred, spent, and excluded as debt service requirements on bonded indebtedness. Of the total amount of \$10,734 for contracts with other political subdivisions, \$10,483 was excluded, \$108 was included in the amounts deducted on the reconciliation as expenditures of separate legal entities and \$143 was carried forward to future years. Of the \$537 accumulated for the purchase of land, buildings, or improvements, \$537 was excluded.

Note 7

The \$6,826 exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes in the governmental funds consists of expended miscellaneous revenues.

The \$1,676 exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization or individual, except amounts received in lieu of taxes in the enterprise funds consists of expended other revenues.

Note 8

The \$25,371 exclusion claimed for quasi-external interfund transactions in the governmental funds consists of expenditures of charges for services revenues. The remaining \$404 of revenues have been carried forward to future years.

The \$342 exclusion claimed for quasi-external interfund transactions in the enterprise funds consists of expenditures of charges for services revenues.

The \$133,160 exclusion claimed for quasi-external interfund transactions in the internal service funds consists of the expended portion of charges for services revenues of \$143,280, of which \$133,160 is excludable as quasi-external interfund transactions and \$10,120 was included in the amounts deducted on the reconciliation as expenditures of separate legal entities.

Note 9

The \$554 exclusion claimed for contracts with other political subdivisions in the internal service funds consists of expended charges for services revenues.

Note 10

The \$353 exclusion claimed for refunds, reimbursements, and other recoveries in the governmental funds consists of expended miscellaneous revenues resulting from stale dated warrant recoveries, credit card rebates, refunds from court ordered services, and other reimbursements.

The \$9 exclusion claimed for refunds, reimbursements, and other recoveries in the enterprise funds consists of expended other revenues resulting from stale dated warrant recoveries and other reimbursements.

The \$5,888 exclusion claimed for refunds, reimbursements, and other recoveries in the internal service funds consists of expended other revenues resulting from stale dated warrant recoveries and pharmacy rebates.

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

Note 11

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> | <u>Internal service funds</u> | <u>Total</u> |
|---|----------------------------------|--------------------------------|--------------------------------------|---------------------|
| Debt proceeds | \$ 1,664 | \$11,801 | | \$13,465 |
| Dividends, interest, gains on the sale or redemption of investment securities | 66,932 | 477 | | 67,409 |
| Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes | | 2,170 | | 2,170 |
| Quasi-external interfund transactions | | | <u>\$3,900</u> | <u>3,900</u> |
| Total prior years carryforward expended | <u>\$68,596</u> | <u>\$14,448</u> | <u>\$3,900</u> | <u>\$86,944</u> |

Note 12

The \$433 subtraction for bad debt expense in the enterprise funds is reported under the general and administrative expenses.

Note 13

The \$1,634 subtraction for pension and other post employment benefit (OPEB) expense consists of changes in the net pension and OPEB assets and liabilities and changes in deferred inflows and outflows related to pensions and OPEB recognized in the current year in the enterprise and internal service funds.

The \$4,241 addition for pension and OPEB contributions paid in the current year consists of the required pension and OPEB contributions made to the Arizona State Retirement System from the enterprise funds and internal service funds. The schedule below reconciles the net effect the subtraction and addition have on the expenditures subject to the limitation to the amounts reported on the statement of cash flows' net effect on cash.

| <u>Statement of cash flows</u> | <u>Enterprise funds</u> | <u>Internal service funds</u> |
|--|--------------------------------|--------------------------------------|
| Change in net pension and OPEB asset | \$ (83) | \$ (18) |
| Change in deferred inflows related to pensions and OPEB | (8,504) | (2,938) |
| Change in deferred outflows related to pensions and OPEB | 2,159 | 789 |
| Change in net pension and OPEB liability | <u>4,680</u> | <u>1,308</u> |
| Total | <u>\$(1,748)</u> | <u>\$(859)</u> |
| <u>AELR Reconciliation</u> | | |
| Pension/OPEB contributions – addition | \$ 3,182 | \$ 1,059 |
| Pension/OPEB expense(income) – subtraction | <u>(1,434)</u> | <u>(200)</u> |
| Total | <u>\$ 1,748</u> | <u>\$ 859</u> |

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

Note 14

The \$76,350 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 \$81,782 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.

Note 15

The 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 funds:

| | <u>Regional flood control district</u> | <u>Stadium district</u> | <u>Library district</u> | <u>Improvements and other districts</u> | <u>Community facilities districts</u> | <u>Total</u> |
|------------------------------------|--|-------------------------|-------------------------|---|---------------------------------------|-----------------|
| Public safety | \$16,033 | | | | | \$16,033 |
| General government | | | | \$237 | | 237 |
| Culture and recreation | | \$8,213 | \$44,909 | | | 53,122 |
| Education and economic opportunity | | | | | \$1,577 | 1,577 |
| Interest and other charges | | | 82 | | 209 | 291 |
| Capital projects fund: | | | | | | |
| Capital outlay | <u>22,189</u> | <u>953</u> | <u>2,807</u> | | | <u>25,949</u> |
| Total | <u>\$38,222</u> | <u>\$9,166</u> | <u>\$47,798</u> | <u>\$237</u> | <u>\$1,786</u> | <u>\$97,209</u> |

The capital outlay amounts represent revenues of separate legal entities that have been transferred to the capital projects fund in the current year or a prior year, but were spent on Regional flood control district, Stadium district, and Library district projects in the current year.

Note 16

The \$54,351 subtraction 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 a revenue and an offsetting expenditure in the County’s governmental funds. Consequently, this expenditure has been subtracted on the reconciliation.

Note 17

The \$24,872 subtraction for the present value of net minimum lease, financed purchased and subscription-based information technology arrangement (SBITA) contract payments recorded as expenditures at the agreements’ inception, consists of new leases and SBITAs recorded in the governmental funds.

Pima County
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2023
(Amounts in thousands)

Note 18

Revenues that are constitutionally excludable that were not spent in the year of receipt may be accumulated and excluded in future years when spent. The Reductions in carryforwards for “Debt proceeds,” “Dividends, interest, and gains on the sale or redemption of investment securities,” and “Quasi-external interfund transactions” include \$2,309, \$340, and \$4,292, respectively, of amounts that are no longer available for exclusion by the County. The June 30, 2022, carryforward balance was restated for “Dividends, interest, and gains on the sale or redemption of investment securities” by \$742 because GASB 87 lease principal and interest payments were included in the debt service requirements exclusion, but the payments were not eligible to be excluded. A summary of the accumulated revenue sources and their balances is shown in the table below:

| Description | Balance June 30, 2022 (as restated) | Additions | Reductions | Balance June 30, 2023 |
|---|--|------------------|-------------------|----------------------------------|
| Debt proceeds | \$ 63,356 | \$84,956 | \$15,774 | \$132,538 |
| Dividends, interest, and gains on the sale or redemption of investment securities | 125,940 | 5,823 | 67,749 | 64,014 |
| Trustee or custodian | 12,109 | | | 12,109 |
| Grants and aid from the federal government | 16,004 | 3 | | 16,007 |
| Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes | 8,291 | | 2,170 | 6,121 |
| Amounts received from the State of Arizona | 7,603 | 6,365 | | 13,968 |
| Quasi-external interfund transactions | 82,725 | 404 | 8,192 | 74,937 |
| Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements | 9,964 | | | 9,964 |
| Highway user revenues in excess of those received in fiscal year 1979-80 | 23,892 | | | 23,892 |
| Contracts with other political subdivisions | 5,366 | 143 | | 5,509 |
| Total carryforward | <u>\$355,250</u> | <u>\$97,694</u> | <u>\$93,885</u> | <u>\$359,059</u> |

