Expenditure Limitation Reports: Reconciliation and Part I
Questions

Submit questions to us during the presentation.

Don’t forget about the FAQs on our Website.

www.azauditor.gov
Reconciliation

Part II

Part I
Financial Statements

- **Line A**
  - **Governmental**
    - Statement of Revenues, Expenditures, and Changes in Fund Balances
  - **Enterprise and Internal Service**
    - Statement of Revenues, Expenses and Changes in Fund Net Assets
  - **Fiduciary**
    - Statement of Changes in Fiduciary Net Assets
- Make sure all required items are included.
- Do not include transfers out.

<table>
<thead>
<tr>
<th>Governmental</th>
<th>Enterprise &amp; Internal Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Other financing uses</td>
<td>• Loss on disposal of capital assets</td>
</tr>
<tr>
<td>• Special items</td>
<td>• Interest Expense</td>
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<tr>
<td>• Extraordinary items</td>
<td>• Other non-operating expenses</td>
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<td></td>
<td>• Special and extraordinary items</td>
</tr>
</tbody>
</table>
Subtractions

UERS Basis Expenditures

Cities & Towns: Line B1 through B4
Counties: Lines B1 through B7
The Notes

Directly from ELR

FINANCIAL STATEMENTS

From ELR

Note to ELR
Items not requiring the use of working capital

- Items do not involve cash payments
- 5 different expense types
- Do not apply to Governmental Funds
Capital asset subtractions

Year of Acquisition

Entire Cost recorded as an asset

Depreciation expense recorded annually over asset’s life

Depreciation not subject to limitation
Capital asset subtractions cont.

Loss not subject to limit…

Because full cost was subject to limit when purchased

Asset is sold before fully depreciated
Bad Debt Expense

- Represents revenue the government will not receive.
- Note to ELR is needed.
Expenses recorded, but... cash outlay may not occur for years, (or decades).

- Claims incurred but not reported
- Landfill closure and postclosure care costs
- Other Postemployment Benefits (OPEB)
Claims incurred

Current Year

Expense Recorded

Liability Recorded

Not Subject to Current Year Expenditure Limitation

Future Year

Payment of claim

Subject to Expenditure Limitation in Year Paid
Landfill closure and postclosure care

Landfill Closure Costs

- Costs incurred during closure
- Maintain closed landfills

Liabilities accrue over the life of the landfill
OPEB

- Recognized when employees render services.
- Expenses represent liabilities rather than cash outlays.
State Retirement Plans only

- Arizona State Retirement System
- Public Safety Personnel Retirement System
- Corrections Officer Retirement Plan
- Elected Officials Retirement Plan

No adjustment needed.

Contributions = OPEB costs paid annually
Other OPEB Plans

Governmental
- Expenditure recorded only when payment made
- No adjustment needed

Enterprise, Internal Service or Fiduciary
- Expense and Liability recorded
- Subtraction needed
## Calculate Subtractions

2 ways to determine subtraction amount

| Subtract the increase in the related liability | Subtract the ending liability balance |

Both amounts can be found in the Notes to the Financial Statements
County jail/public health services in excess of maintenance of effort payments: A.R.S. §§48-4024 or 48-5802

Only expenditures of the government’s legal entity are subject to the limitation.

Entities established before FY 1980 may be included in the base limit calculation.
Expenditures of separate legal entities

Entity A

Capital Projects Fund

- Expenditures: $5,000
- Transfers In: $5,000

Subtracted: $30,000

Library District

Library District Fund

- Expenditures: $25,000
- Subtraction: $30,000
- Transfers In: $10,000
- Transfers Out: $5,000
- Transfers Out: $23,000

General Fund

- Transfers Out: $10,000
Present value of net minimum capital lease payments

- Governmental Funds only
- Only available in the year the government enters into a new lease agreement.
- Does not apply if cash received for leasing purposes.
Involuntary court judgments

- Expenditures must be the result of an involuntary act.
- Refer to Attorney General Opinion 186-031
Counties: Contributions to Fire Districts

- Distribution of monies from specific fire district tax - A.R.S. §48-807
Counties: Community College Reimbursement Payments

- Required by A.R.S. §15-1469.01 for counties that are not part of an established CCD.
- Amount calculated pursuant to A.R.S. §15-1469 withheld from sales tax.
- Payment made by the State on behalf of the county.
ALTCS Payments

Amount withheld from allocation of transaction privilege taxes.
Counties: DHS Payments

- Required contributions are based on annual session laws.

- Session laws indicate these contributions are not subject to the expenditure limitation.
Questions

It's QUESTION TIME!!
Financial Statement Expenditures

UERS Basis Expenditures

Line C1 through C4
Principal on long term debt...and capital asset acquisitions

**Principal on LT Debt**
- Payment recorded as reduction of a liability.
- Related interest already included on Line A.

**Capital Asset Acquisitions**
- Assets are not fully expensed when purchased.
Claims paid and OPEB

Cash outlay recorded as reduction of liability, not a current year expense.

Claims paid are added (to the extent they were previously recorded as expenses).

Applicable fund types:

- Enterprise
- Internal Service
Addition amount depends on subtraction method:

- Subtracted the increase?
- Add the decrease
- Subtracted the ending balance?
- Add the beginning balance

❖ Same net effect on the ELR
Liabilities accrue over the landfill’s life

Cash outlays recorded as reduction of liability rather than expense

Cash outlays added (to the extent that they were previously recorded as expenses).
What about Part II?

Reconciliation

• Apply total subtractions and additions to total expenditures

Part II

• Excludes expenditures that were made from non-local revenues

Part I

• Determine if expenditures were within the limitation
Expenditure Limitation

County, City, or Town State Imposed: Line 1

Home Rule City/Town Voter-approved: Line 2

Preliminary

Final

Revised

Total Expenditures Subject to the Limit from Part II
Counties: Line 2; Cities/Towns: Line 4
Adjustments - Disasters

Disaster declared by Governor

Authorized by 2/3 of Board/Council

No impact on subsequent years’ limitations
Adjustedments - Disasters cont.

Authorized by 70% of Board/Council

No impact on subsequent limitations…**IF** also approved by voters

If not voter approved, then limit impacted for following year
Allowed to exceed limit by a specific amount

- Must be approved by 2/3 of Board/Council
- Approved by voters

Refer to our Webinar for more information
Part I

- Calculates the “bottom line”
  - Determine the total amount under (or in excess of) limitation

- A.R.S. §41-1279.07(H) requires our Office to hold a hearing for overexpenditures

- Action by our Office may be required
The person who signs the ELR should be the same person we have on file.

A.R.S. §41-1279.07(E): entities must submit CFO designation to our Office.
Questions and Thanks

- Contact us

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