

Copy to [unclear]DOUGLAS R. HORTON, CPA
AUDITOR GENERALSTATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERALLINDA J. BLESSING, CPA
DEPUTY AUDITOR GENERAL

July 15, 1987

Mr. Loren Felabom
President of the Arizona Community College
Business Officers' Council
Vice President for Administration
Cochise College
Douglas, Arizona 85607

Dear Mr. Felabom:

In regard to Todd Simon's letter of May 28, 1987, I have reviewed his understanding of the conclusions of the March 18 meeting with members of our Office.

His understanding of the conclusions is correct except for the third item listed under Unused Revenue Capacity. At this time, statutes do not appear to limit unused revenue capacity to the amount of cash carried forward.

I would also like to clarify that the transfer of monies referred to in the second item under Lease Purchase Payments is not an excludable item. Only the lease purchase payment is excludable in the fund making the payment.

If you would like to discuss these points further, please call Maude Haggerty or me.

Sincerely,

Robert A. Alexander, CPA
Accounting Services Director

RAA/1h

RECEIVED

JUL 16 1987

BUSINESS OFFICE



Todd W. Simmons, CPA
Vice President - Administration

EASTERN ARIZONA COLLEGE

600 Church Street Thatcher, Arizona 85352
(602) 428-1133 Ext. 211

May 20, 1987

Maude Haggerty
Office of the Auditor General
2700 N. Central Avenue Suite 700
Phoenix, AZ 85003

Dear Maude:

Our meeting on March 18, 1987 at the Maricopa Community Colleges District Offices was very informative on a number of issues which are very pertinent to the Arizona Community Colleges. This letter is a followup and is intended to clarify the understandings that were reached either at or subsequent to that meeting.

It is our understanding that:

Unused Revenue Capacity

- Unused revenue capacity is an excludable item on the expenditure limitation report.
- Excludable revenues shown on the expenditure limitation report are not available to the calculation of unused revenue capacity.
- Unused revenue capacity which can be used on the expenditure limitation report in a given fiscal year is limited to the amount of cash carryforward.
- Due to misunderstandings or misinterpretations a District may restate its previous years' expenditure limitation reports in order to make any unused revenue capacity available for future fiscal years.
- Unused revenue capacity is maximized by reducing a District's budget to actual expenditures and then by reducing excludable revenues so that expenditures subject to the expenditure limit is \$1 less than the expenditure limit.

Lease Purchase Payments

- Lease purchase payments for real property or equipment are long term debt obligations and, therefore, excludable on the expenditure limitation report.
- Lease purchase payments are on "expenditure type" exclusion, therefore, any source of revenue may be designated to make the payments (ie-state aid, property taxes, bookstore sales, etc.). This, in essence, could convert local non-excludable revenues into excludable revenues.

Budgets

- Statute prohibits a District from increasing its budget once it has been adopted, but there is no statutory penalty for overexpending a District's budget.
- Theoretically, a District could budget \$0 expenditures in a particular fund and continue to operate as normal with no punitive consequences.

If your understanding of the conclusions reached in this communication are different than what were expressed at our March 18th meeting, please respond in writing to the President of the Arizona Community College Business Officers Council, Mr. Loren Felabon, Vice President - Administration for Cochise College.

Sincerely,



Todd W. Simmons, CPA

Chairman, Professional Accounting Standards Subcommittee
Arizona Community College Business Officers Council

Attorney General

Phoenix, Arizona 85007

Robert E. Corbin

February 4, 1988

Mr. Douglas R. Norton
Auditor General
2700 N. Central Avenue - Suite 700
Phoenix, Arizona 85004

Re: I88-017 (R87-166)

Dear Mr. Norton:

You have asked two questions related to the constitutional expenditure limitations of political subdivisions. ^{1/} Your first question is whether a political subdivision may legally carry forward excludable revenues unexpended in the year of receipt for exclusion in later years? We conclude that it may.

The Arizona Constitution establishes limits on the expenditures of counties, cities and towns, Ariz. Const., art. IX, § 20, and on school and community college districts. Ariz. Const., art. IX, § 21. Both sections provide:

The economic estimates commission shall determine and publish prior to April 1 of each year the expenditure limitation for the following fiscal year for each [political subdivision] The governing board of any [political subdivision] shall not authorize expenditures of local revenues in excess of the limitation prescribed

Ariz. Const., art. IX, §§ 20 and 21.

The limitations are on the expenditure of "local revenues." "Local revenues" include virtually all receipts with certain enumerated exceptions. Ariz. Const., art. IX, §§ 20 and 21. These enumerated exceptions, referred to as "excluded

^{1/}For purposes of this opinion we will use the term political subdivision to refer to community college districts and school districts as well as counties, cities and towns.

Mr. Douglas R. Norton
February 4, 1988
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revenues" are not subject to the expenditure limitation. Ariz. Const., art. IX, § 20(3)(d)(i)-(xiv); Ariz. Const., art. IX, § 21(4)(c)(i)-(iv). Therefore, if the political subdivision is otherwise authorized to carry such funds over into a new fiscal year without reversion, such revenues would retain their character as excluded revenues as long as the source can be identified.

Your second question is more easily expressed in the context of a hypothetical situation. City A has an expenditure limitation of \$500 in year one. The city has available and authorizes the expenditure of local revenues in the amount of \$400 and excluded revenues in the amount of \$100. In year two the city again has an expenditure limitation of \$500. The city has \$600 in local revenues it wishes to expend in year two. May City A carry forward the \$100 worth of excluded character, even though the actual revenue was spent, in order to take advantage of the exclusions which it did not need in year one? In other words, if a political subdivision expends less in local revenues than it was authorized in one year, may the excess capacity be carried forward into future years?

We conclude that each year's limitations are independent from one another and a political subdivision may not carry forward the excluded nature of revenues already spent. A political subdivision may not change the character of local revenues to excluded revenues by fiction.

The constitutional provisions are clear and unambiguous in requiring the economic estimates commission to determine "the expenditure limitation for the following fiscal year." Ariz. Const., art. IX, §§ 20 and 21. The provisions thereafter prohibit any expenditures in excess of the limitations so determined. There is no authorization in the constitutional provisions for a subdivision to exceed the expenditure limitation determined by the economic estimates commission for a given fiscal year when the subdivision expends less in local revenues than authorized in a prior fiscal year.

Additional guidance is found in the legislation that was enacted to implement portions of art. IX, §§ 20 and 21. A.R.S. § 41-1279.07 requires the Auditor General to prescribe a uniform expenditure reporting system for all political subdivisions subject to the constitutional expenditure limitations prescribed by art. IX, §§ 20 and 21. The section further mandates that the system of uniform reporting shall include:

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Mr. Douglas R. Norton
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(i) The expenditure limitation established for the reporting fiscal year by the economic estimates commission.

(ii) Total expenditures, by fund, for the reporting fiscal year.

(iii) Total exclusions from local revenues as defined by Article IX, § 20, Constitution of Arizona, by fund, for the reporting fiscal year.

(iv) Total amounts, by fund, of expenditures subject to the expenditure limitation for the reporting fiscal year.

A.R.S. § 41-1279.07(A)(1)(a) (emphasis added).

Furthermore, A.R.S. § 41-1279.07(G) and (H) provide for certain sanctions if a subdivision or district exceeds the expenditure limitation prescribed or authorized for any fiscal year without authorization. A constitutional provision and a statute relating to the same subject must be construed together. Roberts v. Spray, 71 Ariz. 60, 223 P.2d 808 (1950). It is evident that the intent of the statutes and constitutional provisions is to establish independent yearly limitations.

A political subdivision has only those powers expressly conferred or necessarily implied by statute or constitutional provision. E.g. Pioneer National Trust Company v. Kirk, 121 Ariz. 508, 591 P.2d 996 (App. 1979) (counties); State v. Jacobson, 121 Ariz. 65, 588 P.2d 358 (App. 1978) (municipal corporations); School District No. 69 of Maricopa County v. Altherr, 10 Ariz.App. 333, 458 P.2d 537 (1969) (school districts). There is no statutory or constitutional authority, express or necessarily implied, which allows a political subdivision to exceed the constitutional expenditure limitation because of savings of local revenues in previous years.

Sincerely,

Bob Corbin

BOB CORBIN
Attorney General

BC:FLM:DPS:djd

ACTION ITEM

Governing Board Agenda

Meeting Date May 12, 1987

ITEM NUMBER

ITEM TITLE

RESPONSIBLE AGENT

~~6-7~~ C-6

EXPENDITURE LIMITATION CAPACITY-CASH/
FUND BALANCE CARRY FORWARD

Dan Whittemore
Rufus Glasper
Marvin Lassila

RECOMMENDATION

That the MCCCC Governing Board approve the adjustment of Budgeted Expenditures as shown on the attached Exhibit A for the FY 1982-83 through FY 1985-86. The above procedure is needed to accommodate the budgeted usage of Cash/Fund Balance exclusion on the Annual Budgeted Expenditure Limitation Report.

We are also requesting that the Auditor General's Office be commissioned to reaudit the Expenditure Limitation Reports for FY 1982-83, 83-84, 84-85, and 85-86 so that a cumulative expenditure limitation capacity can be determined upon which the District will be able to draw when cash balances/fund balances are sufficient.

JUSTIFICATION

The District has been working with the Auditor General's staff to get clarification on the proper method to utilize cash/fund balance carry forward.

The use of unexpended limitation capacity is a new issue and the Office of the State Auditor General recommends the procedure to maximize the unused revenue capacity. This is done by reducing MCCCC's budget to actual expenditures and then by reducing excludable revenues so that expenditures subject to the expenditure limit is \$1 less than the expenditure limit.

The Auditor General's Office has concurred that it is permissible for the District to have their Governing Board approve the reduction of budgeted expenditures to be equal to the actual expenditures. This would allow the balance of unused expenditure limitation to be carried forward (Exhibit A).

The above procedure and process was approved as an Informational Item at the Audit & Finance Committee meeting of April 2, 1987 and recommended to be forwarded to the full Board for their review and approval. In addition, at its Saturday, April 18, 1987 meeting, the State Board of Directors for Community Colleges of Arizona recommended the formalization of these procedures in the Uniform System of Accounting and Financial Reporting for Arizona Community College Districts.

<u>Funding</u>	<u>Approvals/Certifications</u>
<p><u>Source</u></p> <p style="text-align: center;">(as indicated)</p> <p><u>Acctng. Ident.</u></p>	<p>Acting Chancellor <u>[Signature]</u> Education Dev. _____</p> <p>Business Svcs. <u>[Signature]</u> Planning _____</p> <p>Legal _____ Human Resources _____</p> <p style="text-align: right;">Initials Only</p>

EXHIBIT A

FILE: EXPLIMZ

M C C D
ANNUAL EXPENDITURE LIMITATION ANALYSIS
1982-83 through 1985-86

	General	Auxiliary	Restricted	Unexpended	Total	E E C Expenditure Limit	Difference EEC AND DIST SUBJ/LIMIT	Revised Budget	Accumulative Difference
1982-83									
Budgeted Expenditures	\$72,000,000	12,153,950	10,000,000	11,154,308	105,308,258			2,211,646	
Expenditures	69,737,437	11,385,362	13,661,853	8,311,960	103,096,612				
Differences	2,262,563	868,588	(3,661,853)	2,842,348	2,211,646				
Adjusted Budget	69,737,438	11,385,362	13,661,853	8,311,960	103,096,613				
Total Exclusions Budget Exp Subj to Limit	8,648,543	10,332,238	10,000,000	5,748,085	34,768,757	74,221,952	5,895,091		5,895,092
1983-84									
Budgeted Expenditures	82,169,871	12,875,704	13,350,000	8,368,700	116,764,275			6,667,570	
Expenditures	77,260,847	11,717,014	14,147,624	6,971,220	110,096,706				
Differences	4,909,024	1,158,690	(797,624)	1,397,480	6,667,570				
Adjusted Budget	77,260,848	11,717,014	14,147,624	6,971,220	110,096,706				
Total Exclusions Budget Exp Subj to Limit	12,115,402	11,421,986	13,350,000	3,776,799	40,664,187	81,660,677	12,228,158		18,123,250
1984-85									
Budgeted Expenditures	90,900,000	14,315,317	15,000,000	10,475,497	130,690,814			10,758,490	
Expenditures	85,019,086	11,294,514	14,825,958	8,792,766	119,932,325				
Differences	5,880,914	3,020,803	174,042	1,682,731	10,758,490				
Adjusted Budget	85,019,087	11,294,514	14,825,958	8,792,766	119,932,325				
Total Exclusions Budget Exp Subj to Limit	11,700,830	8,867,217	14,547,264	6,902,889	42,018,200	88,792,574	10,878,449		29,001,699
1985-86									
Budgeted Expenditures	92,795,000	12,473,638	14,673,000	26,276,940	146,218,578			2,249,600	
Expenditures	92,564,494	12,329,015	14,372,969	24,702,500	143,968,978				
Differences	230,506	144,623	300,031	1,574,440	2,249,600				
Adjusted Budget	92,564,495	12,329,015	14,372,969	24,702,500	143,968,979				
Total Exclusions Budget Exp Subj to Limit	15,517,726	11,907,298	13,655,813	25,323,787	66,404,624	79,813,954	1,628,312		
ACCUMULATED SAVINGS BASED									
ON REVISED BUDGETS									
Accumulative savings on unused Expenditure Limitation									
								21,887,306	
								8,742,704	

TOTAL ANTICIPATED BENEFIT IN UNUSED EXPENDITURE LIMITATION CAPACITY \$30,630,010



Todd W. Simmons, CPA
Vice President - Administration

EASTERN ARIZONA COLLEGE

600 Church Street Thatcher, Arizona 85552
(602) 428-1133 Ext. 211

April 8, 1987

DRAFT

Maude Haggerty
Office of the Auditor General
2700 N. Central Avenue Suite 700
Phoenix, AZ 85003

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Todd W. Simmons, CPA
Chairman, Professional Accounting Standards Subcommittee
Arizona Community College Business Officers Council