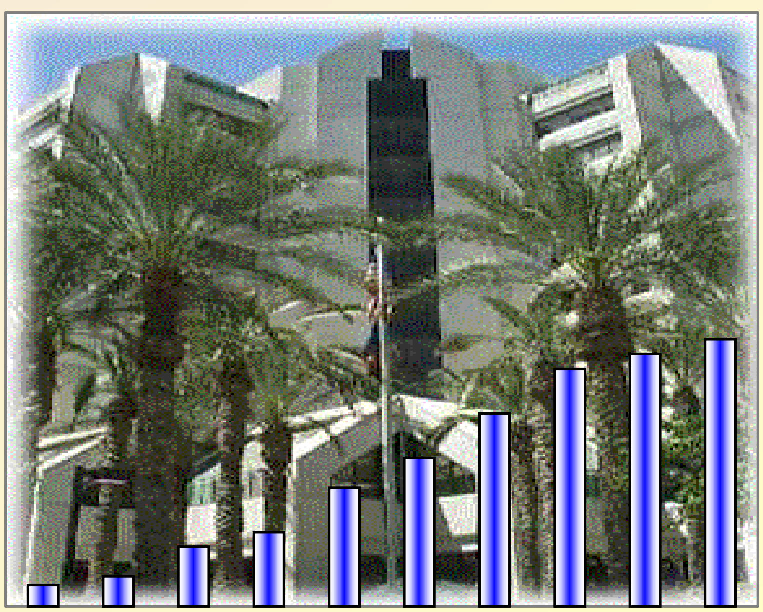
Internal Audit Department

Financial Condition Report

Fiscal Year 2001

Special Executive Edition

(Without Comparative Benchmarks)



County Auditor

Ross L. Tate, CMA, CIA, CGFM

Project Team

D. Eve Murillo, CPA, MBA, CFE

Audit Manager

Richard L. Chard, CPA

Senior Auditor

John Schulz, MPA

Senior Auditor

Kimmie Wong

Associate Auditor

Internal Audit Department

301 W Jefferson 10th Floor Phx AZ 85003 (602) 506-1585 Fax (602) 506-8957

February 8, 2002

Don Stapley, Chairman, District II
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Janice K. Brewer, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

Internal Audit has completed this special edition report on the financial condition of Maricopa County as of June 30, 2001. A more comprehensive report, that includes benchmark information, will be issued later this year when all comparative data is received. This work, which was part of our Board-approved audit plan, provides important information on County financial conditions and trends over the past five to ten years.

Overall, the County's financial condition and trends were favorable through the end of fiscal year 2001. The Board of Supervisors, Elected Officials, and County management should be commended for the many actions taken to achieve these results. Maintaining a balance between fiscal health and maximum service provision is a difficult task.

We acknowledge that evaluating a jurisdiction's financial condition is a complex process, especially during uncertain economic times; many variables are difficult to isolate and quantify. I believe, however, that a routine assessment of the past heightens awareness and provides insight for the future, allowing us to make informed decisions in critical times. Additionally, a comparison to benchmarks broadens our perspective. This type of financial analysis alerts County officials to potential concerns, and facilitates the Board's governance of Maricopa County.

If you have any questions or wish to discuss anything presented in this report, please contact me at your convenience.

Sincerely,

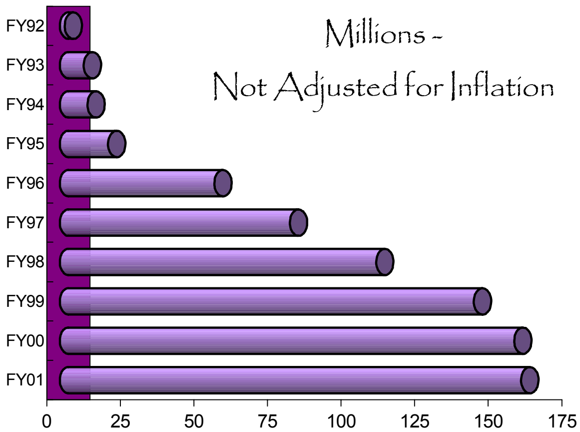
Ross L. Tate

Ross L. Tate
County Auditor

Table of Contents

General Fund

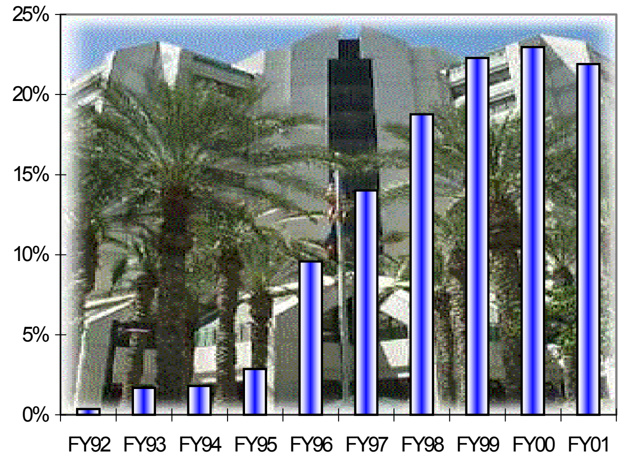
General Fund Balance



The FY01 General Fund balance is three times larger than it was in FY96.

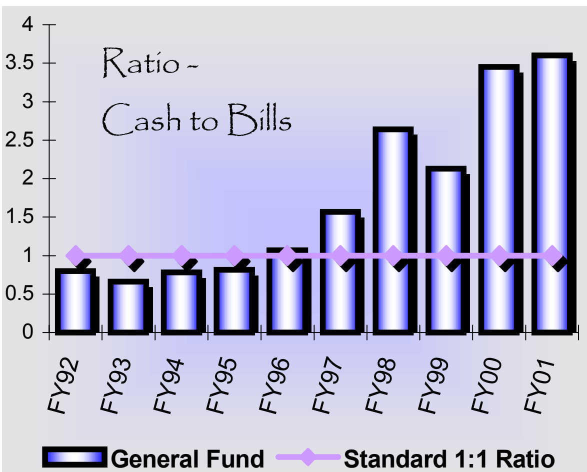
This trend enables the County to complete major projects without incurring debt, and provides a reserve for the unexpected.

Fund Balance as % of Revenues



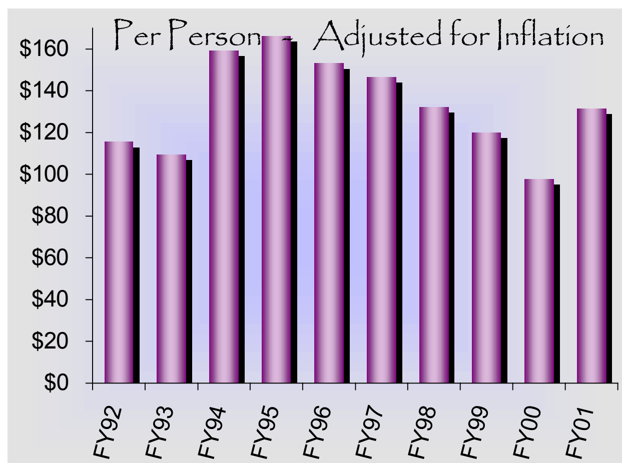
Maricopa's unreserved General Fund balance has grown because financing sources favorably exceeded financing uses (see page 4) and County leaders budgeted reserves for future capital outlay.

Liquidity Trend



Liquidity ratio means cash available compared to current bills. Maricopa's favorable "3.6-to-1" ratio exceeds the recommended "1-to-1" standard but if County hospital "IOU's" were deducted from General Fund assets, the ratio would be significantly less.

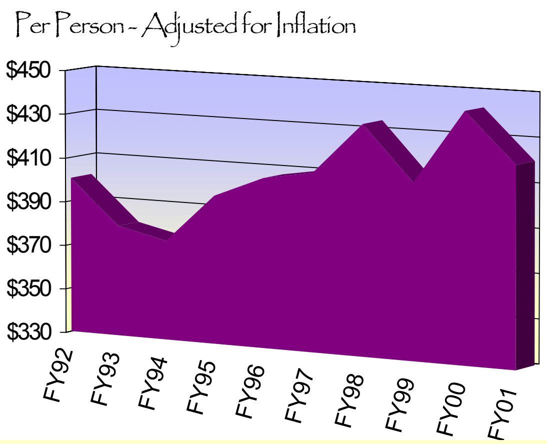
Long Term Debt



Maricopa's low debt promotes favorable bond ratings. Debt is useful for capital projects but shouldn't be used to balance the budget. In FY01, new bonds were issued for building construction and estimated claims/judgments increased. The increase for construction was offset by a hard cash reserve.

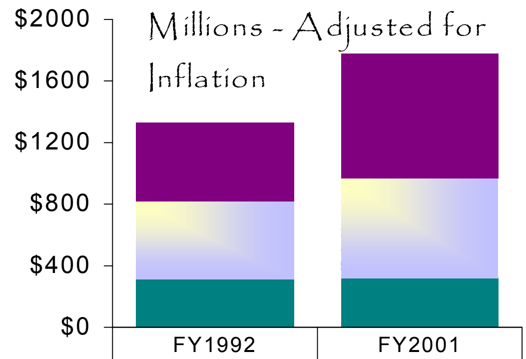
Revenue Size & Composition

Governmental Revenues



Governmental Revenues (non Health System) FY94 low point ($375 per person) coincided with County fiscal troubles. Revenues reached a high point ($442 per person) in FY00, and dipped slightly to $420 per person in FY01.

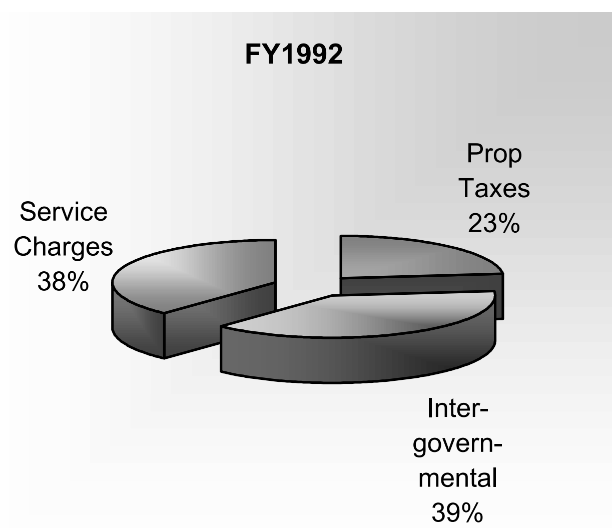
Three Largest County Revenues

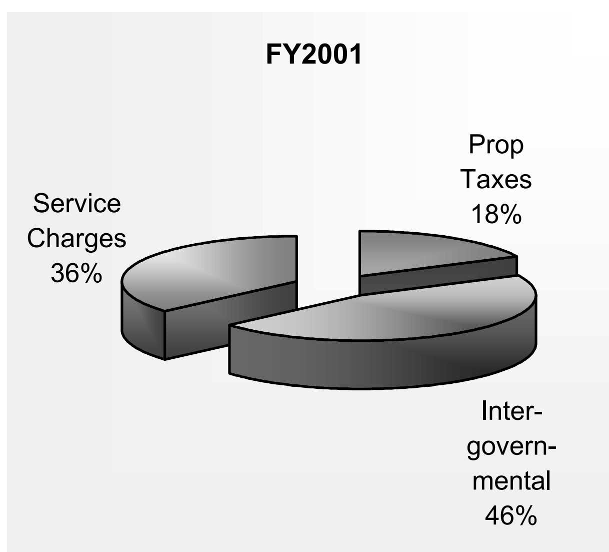


	FY1992	FY2001
Inter-govern-mental	511,632,882	812,206,978
Service Charges	505,500,185	648,187,170
Prop Taxes	311,420,166	316,624,353

Intergovernmental revenues (see page 3) increased by $300 million, Charges for Services (see page 3) by $143 million, and Property Tax by $5 million, between FY92 and FY01.

Revenue Relative Size (Percentages)

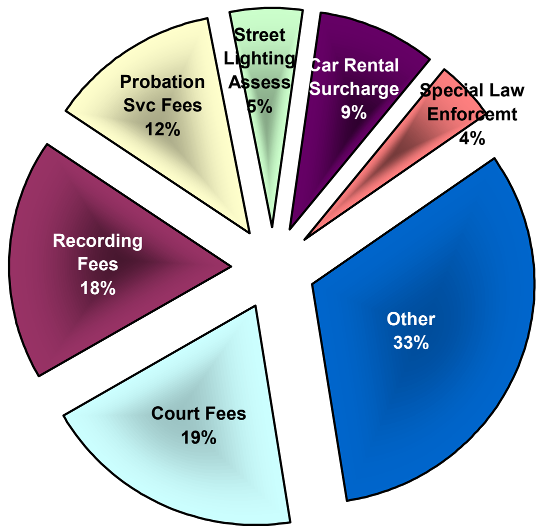




Property tax revenues made up 1/4th of the FY92 revenue base and only 1/5th of the FY02 base. Intergovermental tax revenues (see page 3) increased from 2/5th of the FY92 revenue base to almost half of the FY02 base. Charges for Services (see page 3) remained static. Sales Tax revenue (the bulk of Intergovernmental) volatility may impact future County operations.

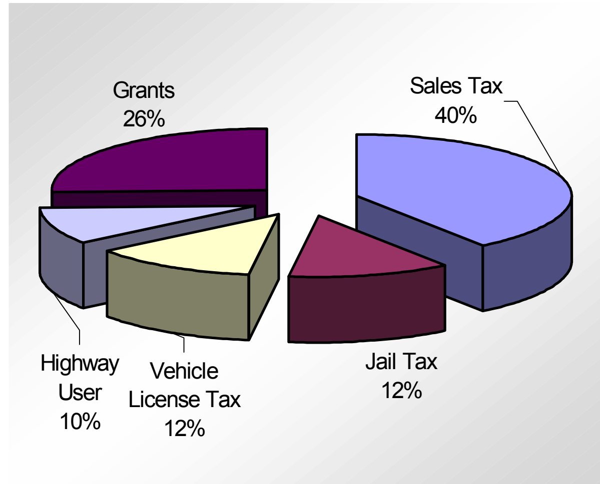
Revenue Size and Composition

Charges for Services



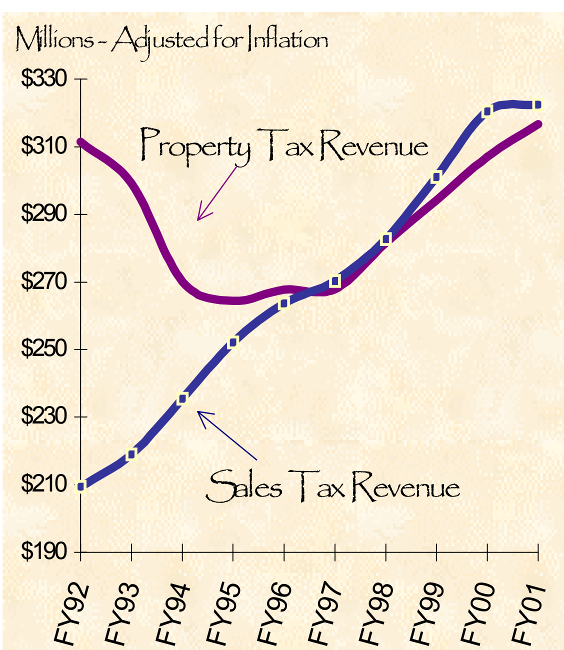
Governmental funds (non Health System) Charges for Services composition. Some classify car rental surcharge as a tax.

Intergovernmental Revenue



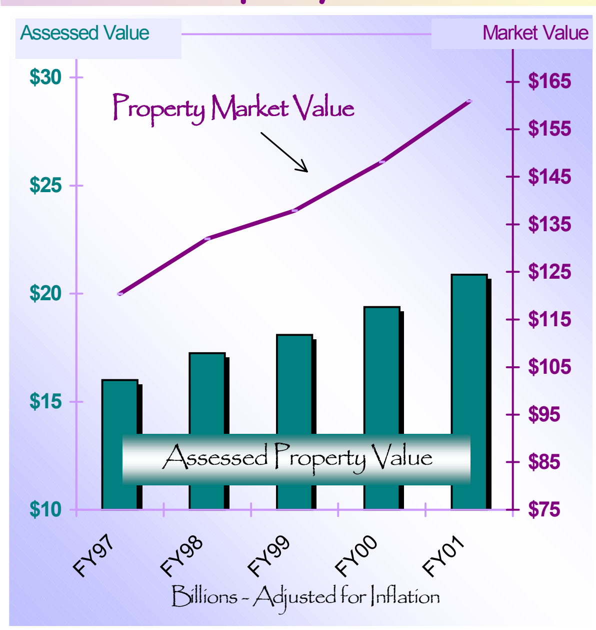
Governmental funds (non Health System) Intergovernmental Revenue composition. Some consider the Jail Tax a local tax, although the State is the collecting agent.

Sales vs. Property Taxes



The chart shows the growing size of, and County reliance upon, sales tax revenues.

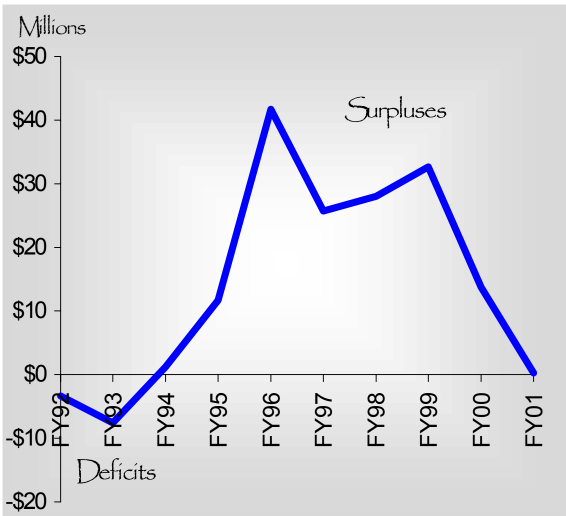
Property Tax



When assessed property values, which are used for tax calculations, lag behind market values, lower property tax revenues result.

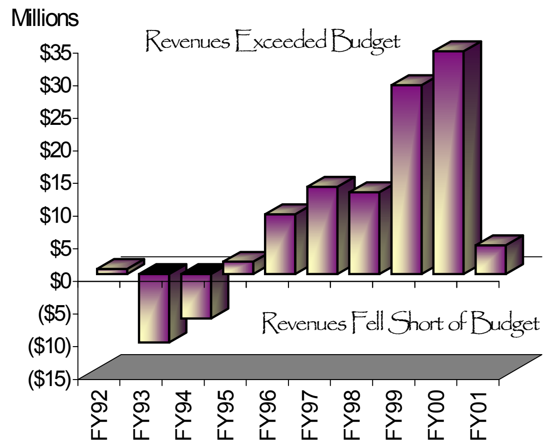
General Fund Revenue Forecasting

Sources Vs. Uses: Surpluses



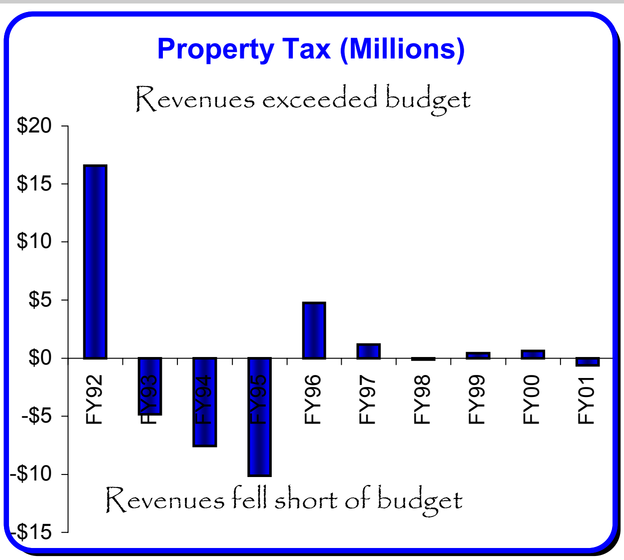
The chart shows that FY95—FY00 actual inflows favorably exceeded actual outflows. In FY01, surpluses were transferred to a separate capital outlay fund.

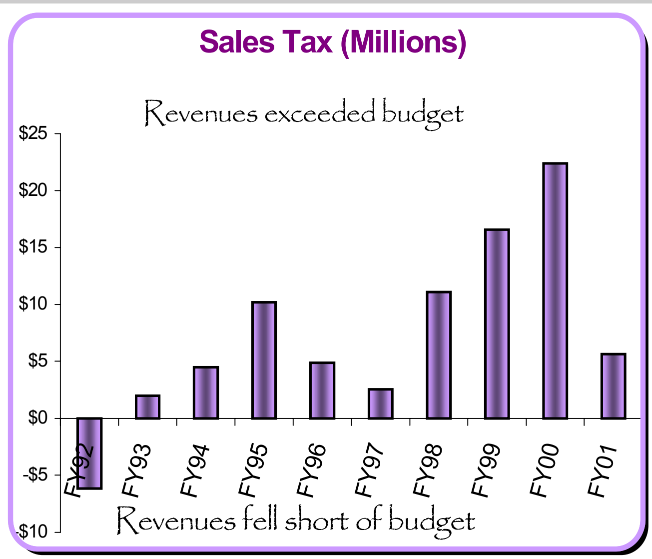
Revenues exceed budget



After FY94, conservative budgeting techniques produced healthy revenue surpluses until the FY01 economic downturn decreased this margin. Excess revenues were reserved for future capital outlay needs.

The variance between budget estimates and actual receipts for two Major General Fund Revenues: Property and Sales Tax

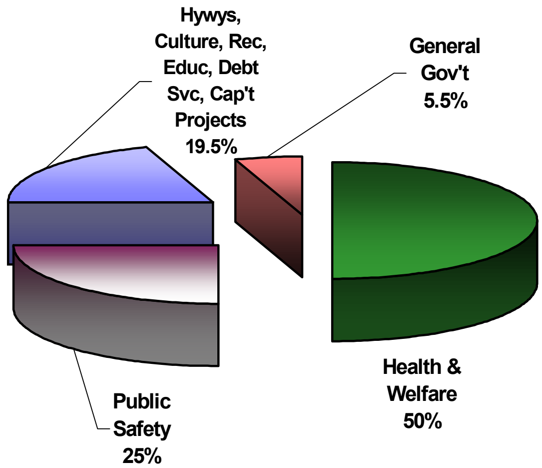




Property tax receipts closely resembled estimates during the last five fiscal years. Sales Taxes were conservatively budgeted and produced surplus revenues. Sales tax revenue growth began to decline during FY01 which narrowed the gap between estimates and actual receipts.

Countywide Expenditures

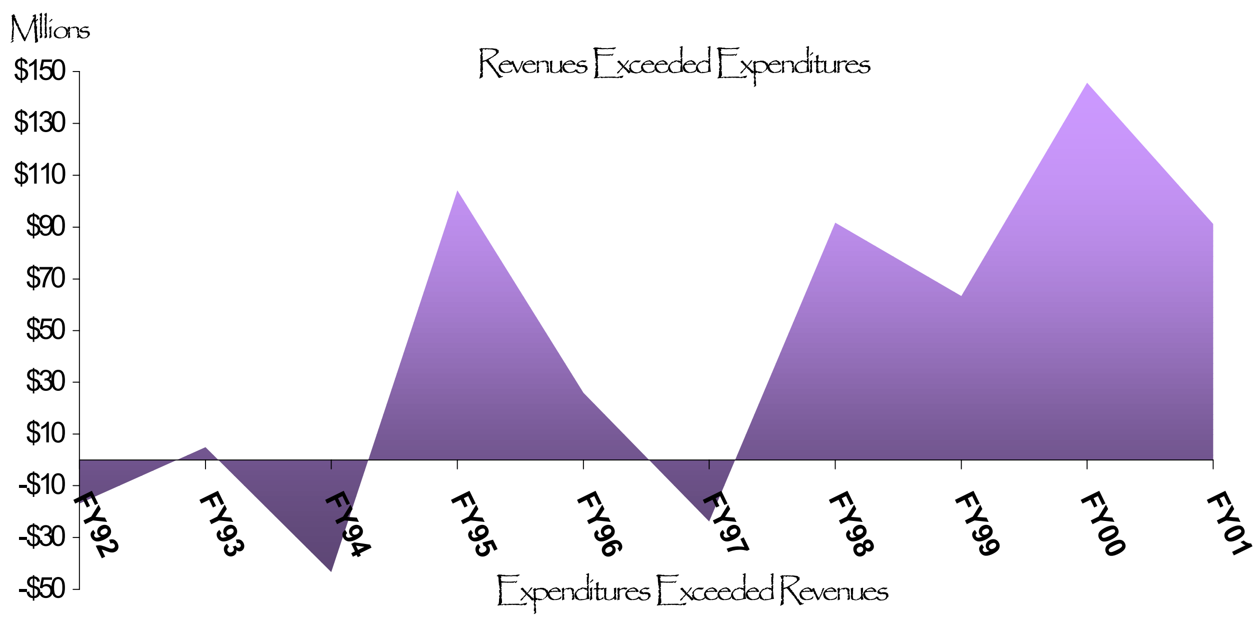
How Resources Are Spent



The majority of County expenditures are for Health and Welfare, including the County's Medical Center, 4 health plans, Public Health dept., Human Services, and Health Care Mandates (County responsible health costs).

Category	FY01 Expenditures (Millions)	Percent of Total Expenditures
Health & Welfare	$907	50%
Public Safety	$459.5	25%
Capital Projects	$230	12.5%
General Government	$98	5.5%
Highways, Streets	$60	3%
Debt Service	$32	2%
Education	$16.5	1%
Culture, Recreation	$16	1%
TOTAL	$1,819	100%

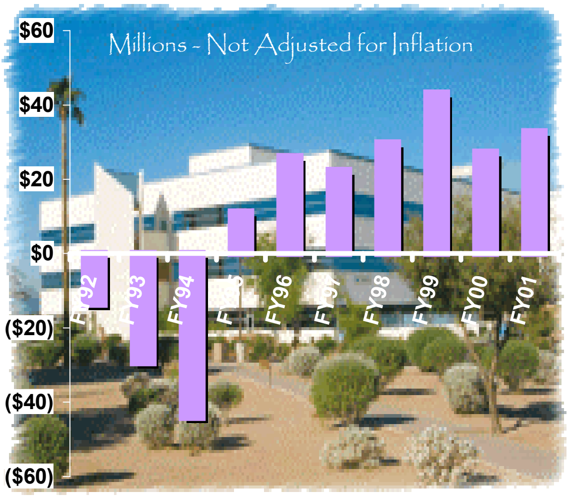
Total County Revenues Compared to Expenditures



Annual revenues exceeded expenditures by a healthy margin since FY95, except for large planned FY97 capital project expenditures (including Stadium). In the early 1990's, expenditures unfavorably exceeded revenues and resulted in fiscal difficulties.

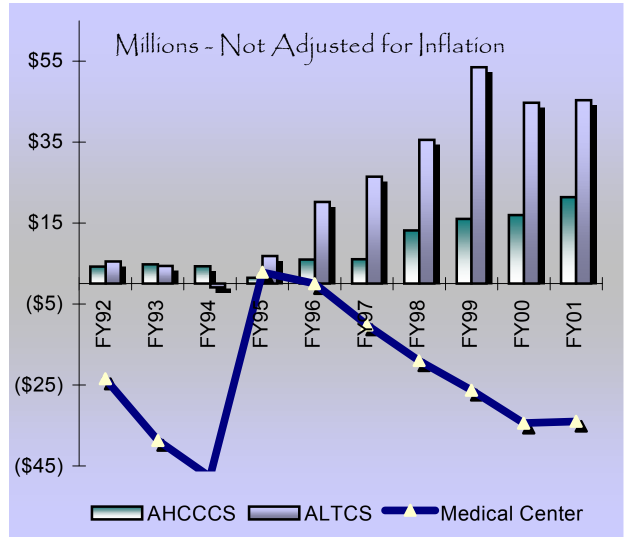
Integrated Health System

Combined Unreserved Equity



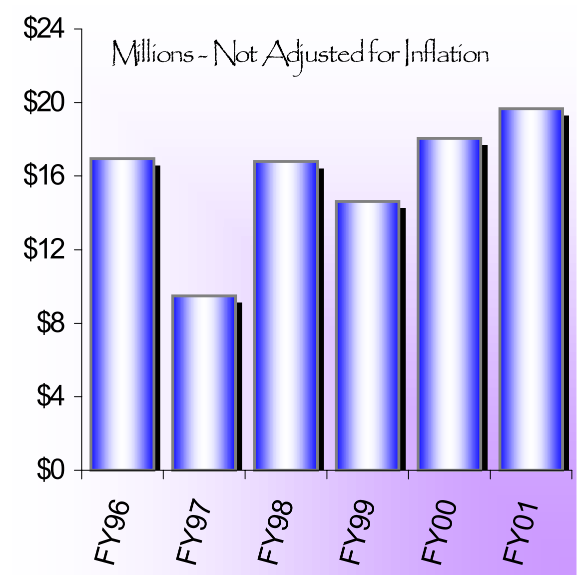
Health System fund equity improved by $46M during FY92 to FY01, and by $5M during FY00 to FY01. The Health Plans generated the increases (see chart at right).

Fund Equity Components



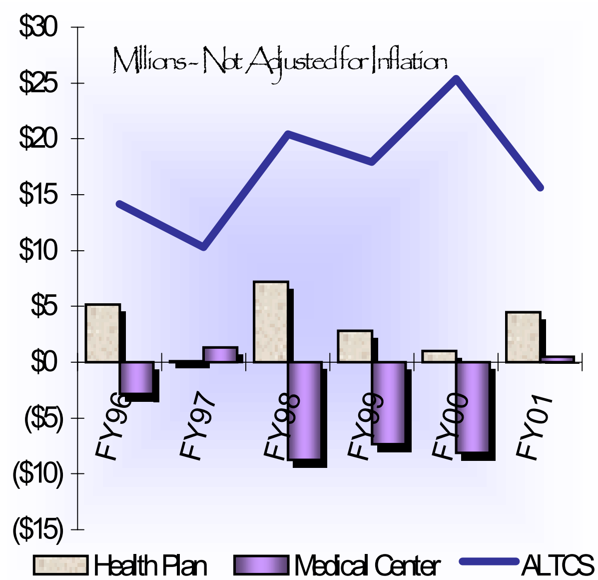
Medical Center fund equity benefited from periodic cash transfers including $50M in FY95, $34M in FY00, and $15M in FY01.

Combined Net Income



Combined net income showed a $1.5M increase in FY01. The ALTCS plan generates the majority of the net income: approximately 100% in FY00 and 80% in FY01.

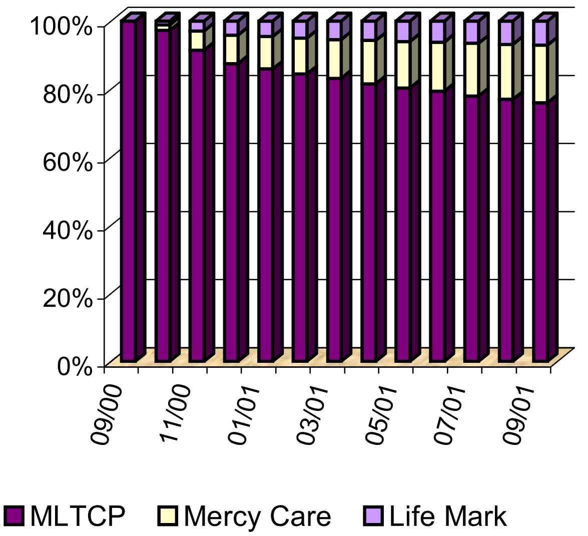
Component Net Income



Although total system net income increased slightly in FY01, ALTCS net income decreased significantly ($9.8 million or 38%).

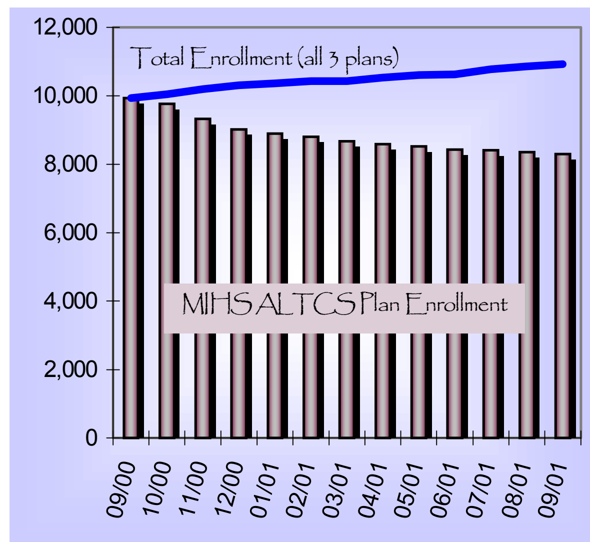
Integrated Health System

ALTCS Market Share



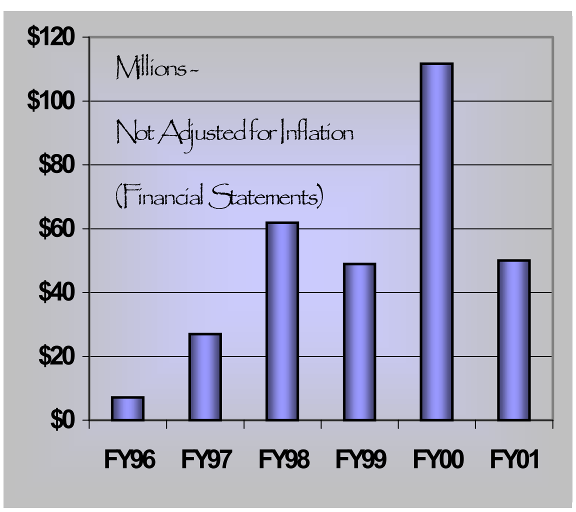
MIHS' ALTCS plan (MLTCP) lost 24% of its market share (9/00 to 9/01) because AZ opened the ALTCS contract to competition.

ALTCS Enrollment Numbers



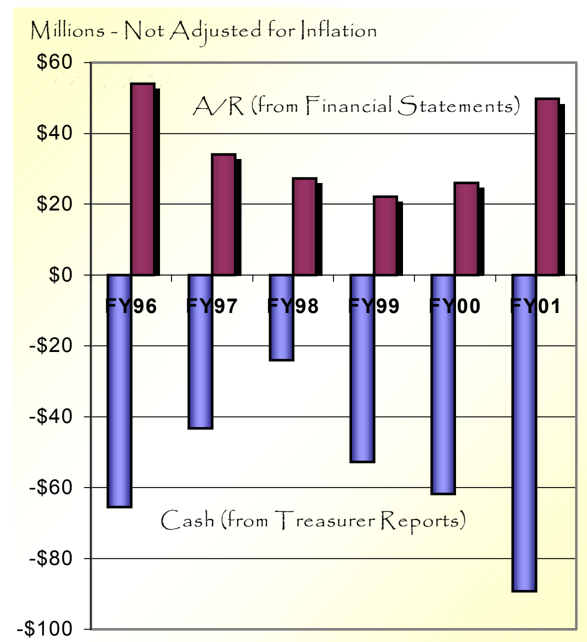
MIHS' ALTCS Health Plan lost 16% or 1,600 of its members during 9/00 to 9/01 while its two competitors grew by 2,600 members.

MIHS Combined Cash



The Health Plans positive cash balances ($125M in FY01) offset Medical Center negative cash balances (-$76M in FY01). Hospital campus capital expenditures account for a significant part of the FY01 cash decline.

Medical Center A/R & Cash



Two trends are a concern, increasing A/R and decreasing cash.

301 W. Jefferson Suite 1090

Phoenix, AZ 85003

Telephone: (602)506-1585

Facsimile: (602)506-8957

E-Mail: jsimpson@maricopa.gov