



# INTERIM FINANCIAL REPORT – EXECUTIVE SUMMARY

**DECEMBER 2010**

(50% OF THE YEAR COMPLETE)

This executive report provides a summary by fund of the revised budget and actual activity as of December 31, 2010. The beginning available balance has been updated to reflect the final available balances after year end close. The revenue and expenditure revised budget reflects a combination of the original budget, the continuing appropriations, encumbrances, and any Council action between July and December to increase estimated revenues or appropriations. The continuing appropriation is comprised mostly of projects in progress.

The City Budget is prepared conservatively utilizing internal and external resources available to estimate revenues and expenditures. At mid-year, an additional review of the budget is presented to council with recommended adjustments. The adjustments for this year's midyear report consider the ongoing economic conditions, current trends and the State and Government Agencies' budget projections.

This report also provides a useful tool for staff and Council to identify funds that require closer attention. Any funds that have projected deficit ending balances will be addressed through midyear reductions in expenditures to avoid deficit spending.



This report will be expanded in the future to provide highlights of areas of concern or expanded explanations and information.

It is important to note that one of the challenges with evaluating the status of revenues is that the funds that rely on property taxes or sales taxes (i.e. General fund, CRA) do not receive the majority of these funds until January, April or May. Past State actions have restricted how and when Cities receive several revenues (i.e. Triple Flip, VLF SWAP).

## Good to know: *Government Accounting and Budgeting*

Most government funds and budgets are managed using a method called "modified accrual" accounting. This method basically means that the governmental funds are managed on a cash basis throughout the year. At year end, accruals are made to ensure that revenues and expenditures are recorded in the applicable fiscal year in which the transactions occurred. This method applies to the General Fund, Special Revenue funds, capital funds, internal service funds and redevelopment funds.

To illustrate, revenue is recorded as it is received throughout the year (cash basis). The majority of General Fund revenues come in sporadically throughout the year and most of it is received in the last 6 months of the fiscal year. Meanwhile, the expenditures are continuing each month regardless of when the revenues are received. This circumstance highlights the importance of maintaining a reserve that allows for cash flow needs during the lean months when there are no revenues.

There are funds that are considered like a business. These are called "Enterprise Funds". The "accrual" method of accounting is used for these funds. These business type funds charge customers a fee to cover all or most of the cost of certain services that are provided. Consistent with accrual accounting, the revenues reported on the interim report reflect revenues based on what was billed the customer rather than the cash payments collected. This method applies to the Airport, Transit, Refuse, Electric, Water and Wastewater funds.