

**2003-04 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)  
(Including Report from Independent Auditor)  
AND SINGLE AUDIT REPORTS**

**RECOMMENDATION**

It is recommended that the City Council:

1. Receive and file the 2003-04 Comprehensive Annual Financial Report (CAFR), which includes the report from Caporicci and Larson, our independent auditors.
2. Receive and file the 2003-04 Single Audit Reports.

**BACKGROUND**

**CAFR**

Annually the City has a financial audit performed by an independent, certified public accounting firm. The auditor's report is located behind the second divider that is labeled "Financial Section".

The presentation of the CAFR is back on schedule this year, with completion in December and presentation to City Council in January. Last year was a year of great change because of the implementation of GASB 34, and staff is still becoming familiar with the requirements and conversions necessary to comply. GASB, or the Governmental Accounting Standards Board, is the standard-setting body for state and local government financial reporting. GASB 34 is the statement that established new financial reporting standards, which, for our City, were implemented for the 2002-03 fiscal year reporting. Implementation of the new standards involved a complete overhaul of report formatting and development of conversion entries for the required reports. The City *did* receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association for its first year report in 2002-03.

For 2003-04, the City again received an unqualified opinion, which indicates that the auditor believes the financial statements present a fair picture of the financial position of the City, as opposed to a qualified opinion, in which the auditor "qualifies" or limits his opinion for specific reasons, such as lack of fixed asset accounting, significant internal control deficiencies or now, non-compliance with GASB 34.

The report has again been submitted to the GFOA to qualify for the Certificate of Achievement for Excellence in Financial Reporting for the fifteenth time. The award program requires a high level of compliance with governmental standards, inclusion of information well beyond the general-purpose financial statements and an unqualified audit opinion.

**Single Audit Reports**

Per federal regulations, the City is required to have a single audit conducted when more than \$500,000 in federal funds is received in any fiscal year. Federal funds passed through a State agency are also included. The City was found to be in compliance in all material respects. Funds included in the audit were Community Development Block Grant Funds, funds from the Federal Emergency Management Agency, the State Domestic Preparedness Equipment Program and the Local Law Enforcement Block Grant from the U.S. Department of Justice.

## ANALYSIS

As a reminder, the new reporting model:

- presents financial information in new formats, namely, the Government Wide Financial Statements, beginning on page 15. These are designed to show net assets and equity of the City as a whole, provide information on the cost of services and show how programs are financed.
- requires a new section, Management's Discussion and Analysis (MD &A) to present financial highlights and assess performance for the year.
- requires reporting on "major" funds rather than aggregate fund types.
- requires accrual accounting for all governmental funds, meaning that long term assets and liabilities (such as capital assets, including infrastructure) are included in addition to short term assets and liabilities. All revenues and all costs of providing services are also reported, not just those received or paid in or soon after year-end.

Much of the information previously contained in the staff report is now found in the MD &A starting on page 3. General Fund information is found on page 10. Detailed sales tax information, however, is not included in the CAFR, therefore it is presented below.

Sales tax represents 15% of total General Fund revenue and increased 3% from 2002-03, in spite of the Volkswagen dealership loss, primarily because of increases in other new car sales.

### 2003-04 Sales Tax By Class\*

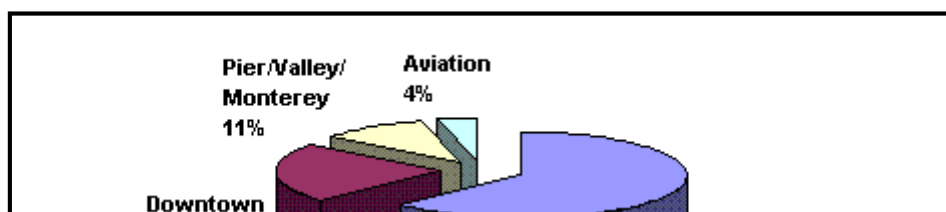
#### Top Ten Categories

RANK/BUSINESS CLASS	Sales Tax 2003-04	Increase/ (Decrease)	% of Change Prev. Yr.	% of Total
1. Auto Dealers and Supplies	\$791,394	58,555	7.99	34.44
2. Eating/Drinking Places	615,278	26,339	4.47	26.77
3. Other Retail	228,575	8,101	3.67	9.95
4. Food Stores	174,052	(28,821)	(14.21)	7.57
5. Building Materials	168,929	15,179	9.87	7.35
6. Service Stations	94,492	17,121	22.13	4.11
7. Business, Service and Repair	87,965	(14,966)	(14.54)	3.83
8. Furniture/Appliance	63,785	5,135	8.76	2.78
9. Wholesale Furniture/Textiles	45,737	(4,381)	(8.74)	1.99
10. Non-store and Part time Retailers	28,012	(1,441)	(4.89)	1.22

\*Threshold for inclusion, \$300 per quarter

### Sales Tax by Geographic Area

LOCATION	Revenue 2002-03	% of Total	% Chg	Revenue 2003-04	% of Total
PCH	1,202,528	60%	13%	1,352,897	63%
Downtown	452,743	23%	6%	481,611	22%
Pier/Valley/Monterey	267,279	13%	-15%	226,793	11%
Aviation	78,662	4%	3%	81,355	4%



Gary Caporicci, the partner in charge of our audit, will be available at the meeting to make some comments about the new CAFR model and to answer any questions you may have.

*Since the reporting model is still new for all of us, if you have particular questions, we would appreciate knowing them in advance so we can give an adequate answer.*

CONCUR:

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Stephen R. Burrell,  
City Manager

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Viki Copeland,  
Finance Director

The reports are available for review in the library and the Finance Department.