

MEMORANDUM

TO: Town Manager, Mayor, and Town Council

FROM: George T. Warman, Jr., Director of Administrative Services /
Town Treasurer

DATE: May 10, 2010

SUBJECT: Town of Corte Madera Audited Financial Statements June 30, 2009

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Attached are the Town of Corte Madera Audited Financial Statements for the year ending June 30, 2009. These statements comply with Governmental Accounting Standards Board Statement No. 34 (GASB 34) and will not be comparable to any prior statements issued for the years ending June 30, 1983 through and including June 30, 2002. Similarly, the statements issued prior to the year ending June 30, 1983 were not comparable to those of the 20-year period from June 30, 1983 through June 30, 2002.

Municipal financial statements issued prior to June 30, 1983, were based on each entity's fund structure and allowed encumbrances to be expensed during the year obligated rather than expensed when earned. Starting June 30, 1983, municipal financial statements have followed a standardized fund and account grouping structure to provide uniformity to municipal financial reporting. Encumbrances were required to be expended during the period earned rather than when obligated. Another important change was the inclusion of component units (Sanitary District No. 2) in the financial statements. The revisions of GASB 34 that were effective with municipal financial statements issued beginning June 30, 2003 (for Corte Madera) have revised the presentation of the standardized fund grouping structure and now require the capitalization and depreciation of all infrastructure and other fixed assets. Previously, infrastructure and other fixed assets were only capitalized and depreciated in Proprietary Funds (enterprise or business like governmental operations). Additionally, internal transactions of the reporting entity are eliminated on the consolidated Balance Sheet (Statement of Net Assets on page 19 of the attached Financial Statements) and on the consolidated Income Statement (Statement of Activities on pages 20 and 21 of the attached Financial Statements). The changes of GASB 34 are to the reporting format and not to governmental accounting.

The above discussion is very generalized and oversimplifies all the countless changes in governmental accounting, reporting, disclosure, and financial statement formatting and presentation, that have transpired over the past years beginning between the First and Second World Wars (approximately between 1920 to 1940). Below I will explain the sections of the revised Financial Statements' presentation.

Independent Auditor's Report – Page 1

Self-explanatory.

Management's Discussion and Analysis – Pages 3 – 16

This section provides a good overview of the Town's finances. The "Economic Factors and Next Year's Budget and Rates" section on pages 12-16 discusses the current Budget – Fiscal Year 2009-2010 as it was adopted on June 25, 2009.

Basic Financial Statements – Pages 17 – 21

The consolidated Statement of Net Assets on page 19 is presented on the accrual basis and is as comparable to the Balance Sheet of a private business entity as deemed possible by the GASB. The Statement of Activities on pages 20 and 21 distinguishes between program generated revenue and tax generated revenue and their comparative support of the Town's functions/programs. This is intended to be comparable to the Income Statement of a private business.

The segregation of revenue on the Statement of Activities on pages 20 and 21 can be cross-referenced to the "Combined Schedule of Revenues" on pages 96 and 97. This should assist those familiar with the Town Budget in understanding the Statement of Activities.

Fund Financial Statements – Pages 23 – 40

Although the presentation of funds has been restructured, this section is similar to past financial statements. Pages 25, 26, 29, and 31 are reconciliations of the fund-based statements to the Statement of Net Assets (page 19) and Statement of Activities (pages 20 and 21). These reconciliations will probably be confusing to those not familiar with "accountantese".

Notes to Basic Financial Statements – Pages 41 – 73

Most of this material is going to be very familiar.

Combining and Individual Fund Statements and Schedules and Capital Assets – Governmental Activities – Pages 75 – 94

This section includes all individual fund statements except those of the major funds, which include the General Fund, Capital Equipment Replacement Fund, Special Storm Drainage Tax Fund, and the Proprietary funds. The statements of the General Fund, Capital Equipment Replacement Fund, and Special Storm Drainage Tax Fund, are on pages 24, 27, 32, and 33. The individual fund statements of the Proprietary Funds are on pages 34-40. This information was presented in the prior format although the sequence of presentation has been changed to emphasize major funds as opposed to minor funds.

Town Prepared Supplementary Schedules – Pages 95 – 108

This new section includes some of the schedules contained previously in the “Statistical Information” section of the reports of fiscal years 2003, 2004 and 2005.

Statistical Section – Pages 109 – 136

This new section includes all the remaining schedules contained previously in the “Statistical Information” section of the reports of fiscal years 2003, 2004 and 2005 as well as many new schedules. Pages 118 and 119 include the Largest Local Secured Taxpayers and page 120 is the Schedule of Top 40 Retail Businesses. Page 133 lists Principal employers. Pages 134 and 135 are a schedule of Full-time Equivalent Town Employees by Function and Program. The many new schedules are a requirement of the GASB.

Reconciliation of Audited Financial Statements to Town and District Budgets – Pages 96 – 105

The Town and District budgets are presented on the modified accrual basis of accounting. For many years, each budget has described the method of accounting utilized in the budget on page S1 (previously S3). In an oversimplified statement, the modified accrual basis of accounting can be described as a checkbook. The bottom line result is cash available for expenditure. This result is what governmental decision-makers need to know.

On pages 96-105 are three schedules that consolidate the Audited Financial Statements onto five pages. They are the Combined Schedule of Revenues--on pages 96 and 97, the Combined Schedule of Expenditures--on pages 100 and 101, and the Combined Schedule of Changes in Fund Balances on page 103. The Reconciliation of Revenues on page 99, the Reconciliation of Expenditures on page 102, and the Reconciliation of Changes in Fund Balances on page 105, reconcile the Audited Financial Statements to the modified accrual basis of accounting applied to all fund types in the Town and District budgets.

Below I will reconcile the far right column of page 105 of the Audited Financial Statements with the “Estimated Opening Balances of Adopted Budget FY 2009-2010 on pages S2, GG16, and SF1” of the Adopted Budget. The “Rounded Actual Opening Balances Adopted Budget FY2009-2010” are in the third column on the right for comparison purposes.

	Finance Department Summary Report June 30, 2009	Estimated Opening Balances Adopted Budget FY2009-2010 Pages S2, GG16, and SF1	Rounded Actual Opening Balances Adopted Budget FY2009-2010
General Fund:			
Reserved or designated for:			
Operations	668,594	(1,875,000)	(2,064,000)
Inventory	2,382	Inventory	Inventory
Petty Cash	<u>500</u>	<u>Cash On Hand</u>	<u>Cash On Hand</u>
Total General Fund*	<u>671,476</u>	<u>(1,875,000)</u>	<u>(2,064,000)</u>
Capital Projects Funds			
Capital Maintenance Funds:			
Capital Maintenance	0	0	0
Capital Equipment Replacement*	0	2,738,000	2,733,000
Gas Tax	0	0	0
Traffic Congestion Relief	21,037	71,000	21,000
Storm Drainage Tax	562,538	585,000	562,000
State Proposition 1B	386,389	390,000	386,000
Capital Improvement Funds:			
Capital Improvement	0	0	0
Affordable Housing	<u>9,775</u>	<u>In Suspense</u>	<u>In Suspense</u>
Total Capital Projects Funds	<u>979,739</u>	<u>3,784,000</u>	<u>3,702,000</u>
Enterprise Funds:			
Sewer	3,218,976	3,179,600	3,219,000
Park Madera**	<u>(1,005,061)</u>	<u>(756,000)</u>	<u>(1,005,000)</u>
Total Enterprise Funds	<u>2,213,915</u>	<u>2,423,600</u>	<u>2,214,000</u>
Internal Service Funds:***	<u>230,176</u>	<u>92,400</u>	<u>230,000</u>
TOTALS	<u>4,095,306</u>	<u>4,425,000</u>	<u>4,082,000</u>

*At June 30, 2009 the balance of the Capital Equipment Replacement Fund (\$2,732,626) was transferred to the General Fund to assist with the Town's Bond Rating (Page 27). The transfer was reversed on July 1, 2009. The sole source of funding of the Capital Equipment Replacement Fund is the General Fund.

**The variance is principally the Pet Club addition and associated ADA Compliance in the Pet Club building.

***The variance is an increased allocation from the General Fund. Extensive litigation and claim expenses under the Self-Insured Retention (\$250,000) on Liability Claims has drained the Self-Insurance Funds. The primary source of funding of the Self-Insurance Funds is the General Fund.

The actual variance between the Estimated Opening Balances and the Rounded Actual Opening Balances is a shortfall of \$343,000. Other than noted in the footnotes above, this was primarily caused by the timing of progress on Capital Projects.

George T. Warman, Jr.
Director of Administrative Services/
Town Treasurer

ATTACHMENT: Table of Opening Balances Dated October 30, 2009 posted on the Town Website.

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**TABLE of FY 2009 - 2010
OPENING BALANCES
ESTIMATED and ACTUAL**

	Estimated Opening Balances Adopted Budget <u>Pages S2, GG16, and SF1</u>	Rounded Actual Opening Balances	<u>Variance</u>
TOWN:			
General Fund	(1,875,000)	(2,064,000)	(189,000)
Equipment Replacement Fund	2,738,000	2,733,000	(5,000)
Storm Drainage Tax Fund	585,000	562,000	(23,000)
Gas Tax Funds	461,000	407,000	(54,000)
Park Madera Center	(756,000)	(1,005,000)	(249,000)
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TOTAL TOWN	1,153,000	633,000	(520,000)
SEWER FUND:	3,179,600	3,219,000	39,400
SELF-INSURANCE FUNDS:	92,400	230,000	137,600
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TOTALS	4,425,000	4,082,000	(343,000)

George T. Warman, Jr.
Director of Administrative Services/
Town Treasurer
October 30, 2009

[Click Here to Read the Entire Audited Financial Statement](#)