

Differences Between the ACFR and the Budget Document

Openness is the spirit of our attitude and the approach to all that we do in the City of Santa Cruz. Our financial plans for the fiscal year, as exemplified in this budget document, are one way that we provide transparency. An additional method we use is our annual financial report. Our openness and accountability through our external financial statements is the way in which we ensure our community has taxation with representation.

We welcome our budget document readers to read our Annual Comprehensive Financial Report (“ACFR” or “Annual Report”), which is a complete set of the City of Santa Cruz’s financial statements, presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants, The Pun Group, LLP. Various financing covenants and regulations associated with restricted funding sources require that we issue and publish the ACFR each fiscal year.

The Annual Comprehensive Financial Report for the past six years may be found here: <https://www.cityofsantacruz.com/government/city-departments/finance/financial-reports>.

Please note that there are differences between the annual budget and the ACFR because there are two perspectives of the data, and these two documents serve different purposes. The budget is a plan for a future fiscal year, showing how general revenues will be allocated. The Annual Report provides the actual results of the prior year’s financial activities. Both documents use the modified accrual basis of accounting for Governmental funds (General Fund, CIP, Special Revenue) but Business Type funds (Enterprise and Internal Service) use a modified accrual basis in the budget document and a full accrual basis in the ACFR. This difference in accounting basis results in some significant differences between the two documents, particularly in the way long term assets and liabilities such as capital assets, debt, and pension costs are recorded. For example, in the budget document, Enterprise funds recognize payment of long-term obligations in the period in which the disbursements are made. In the Annual Report, payment of these long-term obligations by Enterprise funds is not recorded as an expense but rather as a reduction in the long-term liability. In the case of fixed assets, the budget will expense these assets in the year they are purchased. The ACFR spreads the cost out over several years using depreciation to represent use of the asset over its lifetime.

These differences in our annual budget and Annual Report can prove to be frustrating when one expects our documents to represent our finances in an identical way. There is, though, consistency and logic in our reporting in both documents and they accurately present our finances in their differing ways. Our most recent Annual Report earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association and our annual budget for the past fiscal year earned the Distinguished Budget Presentation Award. We strive towards excellence in providing high-quality financial reports to our constituents and the public.

Please reference the next page to see a reconciliation between the ACFR and the Budget for one of our Enterprise Funds.

**Reconciliation of FY 2022 ACFR to FY 2022 Expenditures Reported in FY 2024 Budget
for the Water Fund**

FY2022 ACFR		Differences		FY22 Actuals Reported in FY 2024 Budget	
Personnel Services	15,608,656	Compensated Absences	(1,159,188)	14,449,468	Personnel Services
Services	8,919,968	GASB 75 OPEB	(310,553)	8,609,415	Services
Supplies	3,052,666			3,052,666	Supplies
Other materials & services	1,912,860	Capital expenditures moved to operating	(273,642)	1,639,218	Other materials & services
Other Charges	299,980			299,980	Other charges
Capital Outlay	(88,461)	Capitalized expenditures, GASB 87	463,862	375,401	Capital Outlay
Total Services, Supplies, & Other Charges	29,705,669		(1,279,522)	28,426,147	Total Services, Supplies, & Other Charges
Depreciation and Amortization	4,225,838	Non-budgetary items	(4,225,838)	-	
Interest/fiscal charges on debt	2,772,485	Principal offset & deferred issuance costs	1,525,869	4,298,354	Debt service
Loss on assets	2,067		(2,067)	-	
Transfers	115,599	Transfers (non intra-entity)	(115,599)	-	
TOTAL	36,821,657		4,097,156	32,724,501	

