

December 18, 2001

Honorable Mayor and Members of  
the Hermosa Beach City Council

City Council Meeting of  
January 8, 2002

**2000-01 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
(Including Report from Independent Auditor)**

**RECOMMENDATION**

It is recommended that the City Council:

Receive and file the 2000-01 Comprehensive Annual Financial Report (CAFR), which includes the report from Caporicci, Cropper and Larson, our independent auditors.

**BACKGROUND**

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 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 or significant internal control deficiencies.

The report is a comprehensive report (as opposed to just financial statements) prepared in accordance with guidelines provided by the Government Finance Officers Association (GFOA) and all applicable accounting standards. The City has received the Certificate of Achievement for Excellence in Financial Reporting from the GFOA for the last eight years and the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for ten years. The award programs require a high level of compliance with governmental standards, inclusion of information well beyond the general-purpose financial statements and an unqualified audit opinion. The 2000-01 CAFR has been submitted to both of the associations for consideration in the award programs since the certificates are valid for one year only.

**ANALYSIS**

The following analysis deals with the General Fund, which is the main operating fund of the City. **Additional analysis of all governmental funds is included in the Transmittal Letter, which begins on page i at the front of the CAFR.** Some of the comments are repeated herein for the purposes of this report standing alone.

## General Fund Revenue

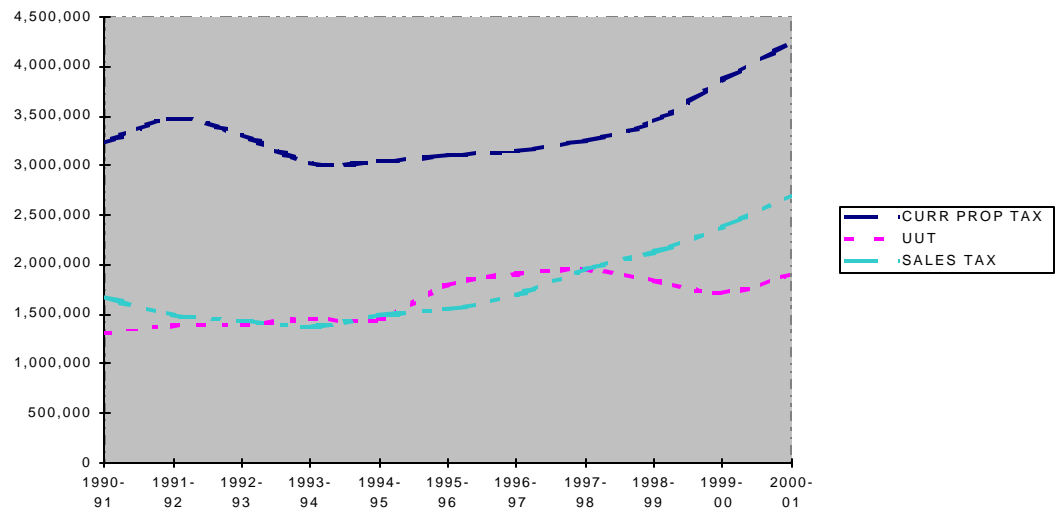
General Fund revenue increased 4% over 1999-00 and was 4% over budget estimates. After adjusting revenue for the one time \$1 million donation in the miscellaneous category received in 1999-00, the revenue increase would be 11%.

REVENUE SOURCE	Revenue FY 00-01 Amount	Increase (Decrease) over FY 99-00	% Of Inc. (Dec.)	% of Total
Property Taxes	\$4,359,738	\$360,447	9.01	28.47
Sales Tax	2,698,726	317,659	13.34	17.60
Utility User Tax	1,896,614	175,678	10.21	12.38
Other Taxes	2,289,519	167,481	7.89	14.95
Licenses & Permits	579,608	21,152	3.79	3.78
Fines & Forfeitures	177,977	(17,504)	(8.95)	1.16
Use of Money and Property	284,368	3,775	1.35	1.86
Intergovernmental Revenue	1,179,120	122,722	11.62	7.69
Charges for Services	1,070,067	54,415	5.36	6.98
Miscellaneous	377,171	(787,219)	(67.61)	2.46
Interest	410,824	136,657	49.84	2.67
Total	<u>\$15,323,732</u>	<u>\$555,263</u>	<u>3.76%</u>	<u>100.00%</u>

### Taxes

Revenue from taxes generates 73% of General Fund revenue. The graph below tracks the three largest revenue sources over the past eleven years.

### General Fund - Largest Revenue Sources



Property taxes overall increased 9%. Current year secured taxes increased 9% and unsecured taxes increased 12%. The City's overall assessed valuation increased 9% over 1999-00.

Sales tax receipts grew by 13%. The tables below display sales tax information for the top ten classes of business (representing 76% of sales tax) and sales tax by geographic area for major accounts.

Utility user tax receipts increased due to higher telephone and gas revenue.

The 8% increase in the Other Taxes category results from higher transient occupancy tax revenue (12%) and higher business license revenue (10%).

### **2000-01 Sales Tax By Class**

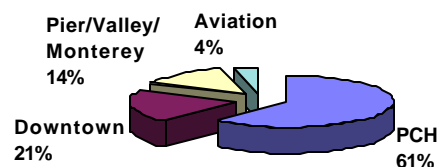
#### **Top Ten Categories**

<b>RANK/BUSINESS CLASS</b>	<b>Sales Tax 2000-01</b>	<b>Inc./ (Dec)</b>	<b>% Of Change Prev. Yr.</b>	<b>% of Total</b>
1. AUTO DEALERS AND SUPPLIES	\$714,748	\$191,262	36.54%	34.95%
2. EATING/DRINKING PLACES	529,003	47,089	9.77%	25.87%
3. GROCERY/LIQUOR STORES	218,827	7,851	3.72%	10.70%
4. AUTO LEASE	126,596	(3,054)	(2.36%)	6.19%
5. LUMBER/BUILDING MATERIALS	108,256	(7,273)	(6.30%)	5.29%
6. SPORTING GOODS/BICYCLES	80,933	9,585	13.43%	3.96%
7. SPECIALTY STORES	79,295	9,821	14.14%	3.88%
8. SERVICE STATIONS	72,504	2,238	3.19%	3.55%
9. HOUSEHOLD/HOME FURNISHINGS	61,963	18,709	43.25%	3.03%
10. WHOLESALE TEXTILES FURNISHINGS	52,935	1,450	2.82%	2.58%

### **Sales Tax by Geographic Area**

<b>LOCATION</b>	<b>Revenue 99-00</b>	<b>% Of Total</b>	<b>% Chg</b>	<b>Revenue 00-01</b>	<b>% Of Total</b>
PCH	1,065,941	59%	20%	1,275,195	61%
Downtown	383,270	21%	14%	435,784	21%
Pier/Valley/Monterey	277,046	15%	4%	287,430	14%
Aviation	75,956	4%	8%	81,770	4%

#### **00-01 SALES TAX BY GEOGRAPHIC AREA**



Fines and Forfeitures decreased 9% as a result of redeployment of motor officers due to staffing vacancies.

Intergovernmental Revenue increased because of higher motor vehicles license fee collections and more reimbursements for State mandated costs.

Interest revenue increased because of higher interest rates and availability of more funds for investment.

### **General Fund Expenditures**

General Fund expenditures increased 15% from 1999-00 and were 3% under budget, after adjustment for amounts being reappropriated and two capital projects (Pier and City Hall remodel) which carry over to 2001-02. Negotiated salary increases affect all categories except capital outlay.

<b>GENERAL FUND</b>	<b>Expenditures FY 00-01 Amount</b>	<b>Increase (Decrease) Over FY 99-00</b>	<b>% Of Inc. (Dec.)</b>	<b>% of Total</b>
Legislative & Legal	\$725,871	\$87,750	13.75	5.09
General Government	968,316	73,578	8.22	6.77
Public Safety	8,952,269	1,189,790	15.33	62.70
Community Development	854,749	61,384	7.74	5.99
Culture & Recreation	725,387	(18,858)	(2.53)	5.08
Public Works	1,614,216	59,724	3.84	11.31
Capital Outlay	437,038	409,629	1,494.51	3.06
Total	<u>\$14,277,846</u>	<u>\$1,862,997</u>	<u>15.01%</u>	<u>100.00%</u>

The Legislative/Legal category reflects increased costs related to litigation.

In the General Government category, the increase is due primarily to personnel matters.

The increase in Public Safety is attributable to several items: negotiated salary and benefit increases, addition of computer replacement charges for the first time, first full year cost of the conversion from in-house dispatching to outsourced dispatching, increased insurance charges due to increased workers' compensation rates and liability claims and increased equipment replacement charges from updating replacement values.

The Community Development Category includes costs related to the update of the Housing Element of the General Plan and costs of temporary coverage for employee leaves/vacancies.

Culture/Leisure expenditures decreased slightly due to lower expenditures for instructors and excursions.

Public Works expenditures increased primarily as a result of increased utility costs.

The Capital Outlay category, which is for capital improvement projects, varies from year to year. 2000-01 expenditures are for the Pier Project and the City Hall remodel.

### **General Fund Surplus**

The policy of transferring any unexpended funds in the General Fund to the Equipment Replacement Fund (ERF), Insurance Fund and the Capital Improvement Fund was implemented to build equity in the funds and provide much-needed funds for capital improvements.

Progress has been made in both the ERF and the Insurance Fund. Most of the anticipated funds in the Capital Improvement Fund have already been budgeted for 2001-02.

### **General Fund, Fund Balance**

Fund balance as a percent of expenditures is a measure of the City's cushion against economic uncertainties or revenue shortfalls. Bond rating agencies have historically considered at least a 5% reserve "prudent", however, level of reserves should be decided based on individual circumstances and the economic climate. The General Fund contingency balance is 11% of expenditures.

Both the policy of transferring unexpended funds from the General Fund and the adequacy of the contingency amount will be reviewed as part of the Midyear Budget Review. The review will be conducted next month and provides the next opportunity to review our financial picture.

Gary Caporicci, the partner in charge of our audit, will be present at the meeting.

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.