

December 18, 2002

Honorable Mayor and Members of  
the Hermosa Beach City Council

City Council Meeting of  
January 14, 2003

**2001-02 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
(Including Report from Independent Auditor)**

**RECOMMENDATION**

It is recommended that the City Council:

Receive and file the 2001-02 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 2001-02 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 purpose of having this report stand alone.

## General Fund Revenue

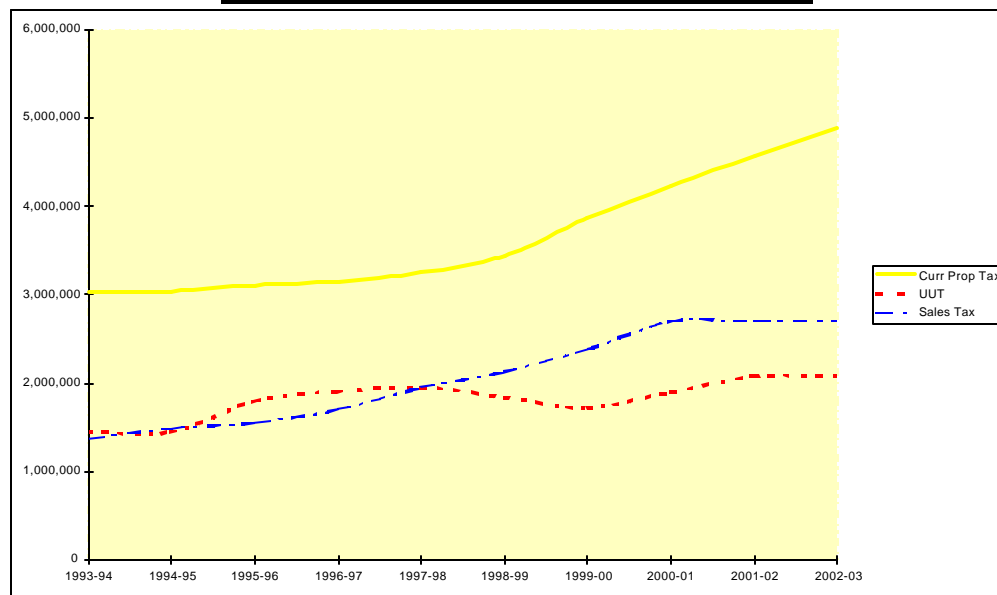
General Fund revenue increased 3% over 2000-01 and was 1% over budget estimates.

REVENUE SOURCE	Revenue FY 01-02 Amount	Increase (Decrease) Over FY 00-01	% Of Increase (Decrease)	% Of Total
Property Taxes	\$4,729,809	\$370,071	8.49	30.01
Sales Tax	2,658,955	-39,771	-1.47	16.86
Utility User Tax	2,092,916	196,302	10.35	13.27
Other Taxes	2,523,229	233,710	10.21	16.01
Licenses & Permits	445,673	-133,935	-23.11	2.83
Fines & Forfeitures	210,554	32,577	18.30	1.34
Use of Money and Property	252,256	-32,112	-11.29	1.60
Intergovernmental Revenue	1,162,706	-16,414	-1.39	7.37
Charges for Services	1,032,761	-37,306	-3.49	6.55
Miscellaneous	476,392	99,221	26.31	3.02
Interest	180,803	-230,021	-55.99	1.14
Total	<u>\$15,766,054</u>	<u>\$442,322</u>	<u>2.89%</u>	<u>100.00%</u>

## Taxes

Revenue from taxes generates 76% 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 8%. Current year secured taxes increased 8% and unsecured taxes increased 7%. The City's overall assessed valuation increased 10% over 2000-01.

Sales tax receipts were virtually flat, which is consistent with County and State trends. The tables below display sales tax information for the top ten classes of business (representing 78% of sales tax) and sales tax by geographic area for major accounts.

Utility user tax receipts increased due to higher revenue related to telephone and electricity use.

The 10% increase in the Other Taxes category results from higher transient occupancy tax revenue (16%) and higher property transfer tax (16%).

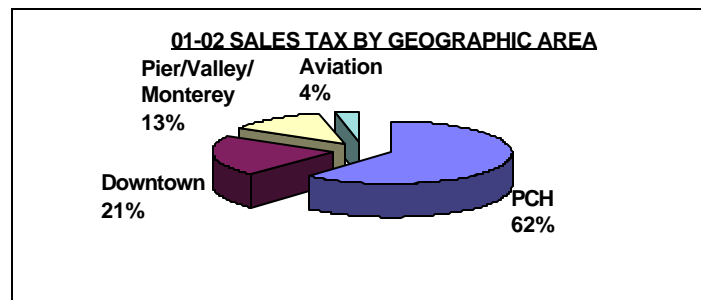
### **2001-02 Sales Tax By Class**

#### **Top Ten Categories**

<b>RANK/BUSINESS CLASS</b>	<b>Sales Tax 2001-02</b>	<b>Inc./Dec)</b>	<b>% Of Change Prev. Yr.</b>	<b>% Of Total</b>
1. AUTO DEALERS AND SUPPLIES	\$749,164	\$57,785	8.36	36.18
2. EATING/DRINKING PLACES	559,893	32,307	6.12	27.04
3. GROCERY STORES	210,956	-7,871	-3.60	10.19
4. AUTO LEASE	135,255	9,595	7.64	6.53
5. LUMBER/BUILDING MATERIALS	113,095	4,839	4.47	5.46
6. SPORTING GOODS/BICYCLES	97,566	-9,842	-9.16	4.71
7. SERVICE STATIONS	60,936	-11,568	-15.95	2.94
8. SPECIALTY STORES	52,300	7,878	17.73	2.53
9. HOUSEHOLD/HOME FURNISHINGS	46,417	-8,975	-16.20	2.24
10. WHOLESALE TEXTILES FURNISHINGS	45,229	-7,516	-14.25%	2.18%

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

	Revenue	% Of		Revenue	% Of
LOCATION	2000-01	Total	% Chg	2001-02	Total
PCH	1,287,614	62%	1%	1,303,809	62%
Downtown	435,869	21%	3%	447,943	21%
Pier/Valley/Monterey	274,939	13%	3%	283,580	13%
Aviation	81,770	4%	-11%	72,520	3%



Licenses and Permits declined due to lower revenue from building permits. The valuation of permits processed declined, however, the number of permits issued increased.

Fines and Forfeitures increased 23% as a result of an increase in the number of traffic violations and increased fines for misdemeanor cases.

Uses of Money and Property declined due to several one-time special events in the previous year.

Interest revenue decreased because of lower overall interest rates.

### **General Fund Expenditures**

General Fund expenditures increased 3% from 2000-01 and were 7% under budget (after adjusting for reappropriations), primarily because of personnel vacancies and leaves due to disabilities. Negotiated salary increases affect all categories except capital outlay. Computer charges increased in all categories as a result of a change in the useful life on computers from five to three years.

<b>GENERAL FUND</b>	<b>Expenditures FY 01-02 Amount</b>	<b>Increase (Decrease) Over FY 00-01</b>	<b>% Of Increase (Decrease)</b>	<b>% Of Total</b>
Legislative & Legal	\$818,115	\$92,244	12.71	5.58
General Government	1,049,684	81,368	8.40	7.14
Public Safety	8,954,230	1,961	0.02	61.00
Community Development	880,387	25,638	3.00	6.00
Culture & Recreation	888,734	163,347	22.52	6.05
Public Works	1,908,650	294,434	18.24	13.00
Capital Outlay	178,391	-258,647	-59.18	1.23
Total	<u>\$14,678,191</u>	<u>\$400,345</u>	<u>2.80%</u>	<u>100.00%</u>

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

General Government, Public Safety and Community Development increased only slightly after allowing for the increase in computer charges.

Culture/Leisure expenditures increased due to higher expenditures for instructors and excursions (some of which is offset by revenue increases), and increased equipment purchases.

Public Works expenditures increased for a variety of reasons. Utility costs were higher due to the electricity crisis; contracts for parks maintenance and janitorial services were expanded, and a new street sweeping contract resulted in a higher cost.

The Capital Outlay category, which is for capital improvement projects, varies from year to year.

## General Fund Unspent Funds

### Background

The policy of transferring unspent funds in the General Fund to the Insurance Fund, Equipment Replacement Fund (ERF) and Compensated Absences Fund was implemented in 1995-96 to build equity and provide funds for amounts owed to employees for accumulated leave.

The policy was changed in 1998-99 to discontinue allocating funds to the Compensated Absences Fund (since it was fully funded) and create a Capital Improvement Fund for street improvements, etc.

At Midyear Budget Review 2001-02, the City Council approved the following policies:

- 1) Continue transferring funds equally to the Insurance Fund, ERF and Capital Improvement Fund and 2) add the Contingency Fund to the transfer. The contingency amount of \$1,564,296, which was recorded in the General Fund, was transferred to the Contingency Fund.
- Funding goals were set as follows:
  - Insurance Fund \$3,000,000
  - ERF Amount shown as "Accumulated Amount" in ERF Schedules
  - Compensated Absences Fund 50% of liability
  - Contingency Fund 15% of Appropriations
  - Capital Improvement Fund No goal, ongoing amount needed

### Goal Status

At the end of 2001-02, \$1,514,928.10 was unspent in the General Fund. The amount of \$378,732.02 transferred equally to four funds. Unspent funds were comprised of additional revenue (1.34% over budget) and expenditures under budget by 7%, most of which was due to vacancies and disability leaves.

Progress toward the established goals is shown below:

<u>Fund</u>	<u>Goal</u>	<u>Balance</u>	<u>Amount Needed to Meet Goal</u>
Insurance Fund	\$3,000,000	\$1,553,358	\$1,446,642
ERF	\$1,435,531	\$1,714,875	\$ (279,344)
Contingency Fund	\$2,453,374	\$2,272,087	\$ 181,287
Compensated Absences Fund	\$ 496,344	\$ 377,427	\$ 118,917

Since the ERF has excess funds of \$279,344, it is recommended that \$181,287 be transferred to the Contingency Fund and the remainder of \$98,057 be transferred to the Compensated Absences Fund. With those transfers, the Contingency Fund goal will be met and the Compensated Absences Fund will only be \$20,860 short of meeting the goal.

The next opportunity for review of our financial position is Midyear Budget Review on February 11, 2003.

Gary Caporicci, the partner in charge of our audit, will be available at the meeting for questions.

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.