

July 20, 2004

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
July 27, 2004

**2002-03 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
(Including Report from Independent Auditor)**

RECOMMENDATION

It is recommended that the City Council:

Receive and file the 2002-03 Comprehensive Annual Financial Report (CAFR), which includes the report from Caporicci 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".

Normally, the CAFR is complete by December and presented to City Council in January. This year was a year of great change year because of the implementation of GASB 34. 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 for 2002-03 and conversion of the previous year's data in addition to 2002-03 in order to have comparative information. Well over a year of planning was required, involving not only the Finance staff but also Public Works, an outside appraisal firm and additional services from the auditors. The staff appreciates the City Council's support for the extra effort and the financial resources for the additional services that were required to make it happen.

The most recent fund balances, as contained in the 2002-03 CAFR were used in the 2004-05 Preliminary Budget, therefore the City Council did have accurate information when considering the 2004-05 Preliminary Budget. The fact that the CAFR had not actually been presented to the City Council did not, therefore, affect any of the decision-making. Staff plans to present the 2003-04 CAFR at the normal time.

Some of the efforts involved in the project were the independent identification and appraisal of the city's infrastructure assets, which involved Public Works and American Appraisal, development of accounting data to convert to and support the new statements, development of new fixed asset policies and new systems for recording the infrastructure assets.

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 Government Finance Officers Association (GFOA) to qualify for the Certificate of Achievement for Excellence in Financial Reporting for the ninth time. The filing deadline was extended in consideration of GASB 34 implementation. 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.

ANALYSIS

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 declined by 6% from 2001-02, primarily due to the loss of the Porsche/Audi dealership and associated lease revenue.

2002-03 Sales Tax By Class*

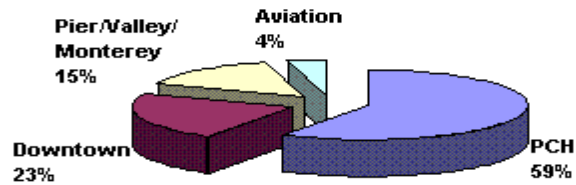
Top Ten Categories

RANK/BUSINESS CLASS	Sales Tax 2002-03	Increase/ (Decrease)	% of Change Prev. Yr.	% of Total
1. Auto dealers and Supplies	\$732,516	(164,504)	(18.34)	33.60
2. Eating/Drinking Places	588,939	21,120	3.72	27.01
3. Other Retail	213,255	10,386	5.12	9.78
4. Food Stores	197,822	7,322	3.84	9.07
5. Building Materials	130,038	2,717	2.13	5.96
6. Business, Service and Repair	102,213	(9,978)	(8.89)	4.69
7. Service Stations	77,371	16,435	26.97	3.55
8. Furniture/Appliance	56,423	6,674	13.42	2.59
9. Wholesale Furniture/Textiles	49,194	2,261	4.82	2.26
10. Non-store and Part time Retailers	32,317	(7,078)	(17.97)	1.48

Threshold for inclusion, \$300 per quarter

Sales Tax by Geographic Area

LOCATION	Revenue 2001-02	% of Total	% Chg	Revenue 2002-03	% of Total
PCH	\$1,303,871	62	(9)	1,185,399	59
Downtown	448,084	21	1	453,675	23
Pier/Valley/Monterey	283,568	13	5	297,012	15
Aviation	72,661	3	6	77,326	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 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:

Stephen R. Burrell,
City Manager

Viki Copeland,
Finance Director

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