

December 13, 2005

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
January 10, 2006

**2004-05 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
(Including Report from Independent Auditor)**

RECOMMENDATION

It is recommended that the City Council:

Receive and file the 2004-05 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".

When the City Council extended the audit agreement earlier this year, we indicated that our goal was to complete the audit and presentation of the CAFR earlier than we had in the past. *We did succeed in presenting the report one City Council meeting earlier this year. We intend to be even earlier than that next year, if all goes well.*

I would like to say that we are completely adapted to the new reporting format implemented three years ago, but since we only deal with it once a year, staff is still becoming familiar with the requirements and conversions necessary to comply. 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 and development of conversion entries for the required reports.

For 2004-05, 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 sixteenth time. The report is also being submitted to the California Society of Municipal Finance Officers this year since they changed their deadline to coincide with GFOA. 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

As a reminder, the new reporting model:

- presents financial information in new formats, namely, the Government Wide Financial Statements, beginning on page 17. 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 Management Discussion and Analysis (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 now represents 13% of total General Fund revenue, down from 15% last year. Total revenue is virtually flat at -.47% change from 2003-04. Fortunately, BMW stayed longer than they originally planned or the decrease would be greater.

2004-05 Sales Tax By Class*

Top Ten Categories

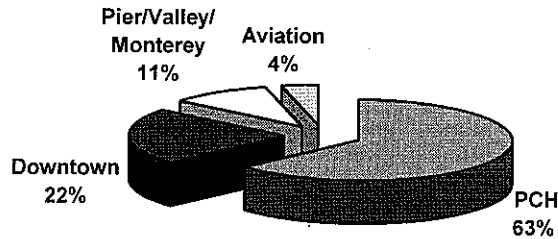
RANK/BUSINESS CLASS	Sales Tax 2004-05	Increase/ (Decrease)	% of Change Prev. Yr.	% of Total
1. Eating/Drinking Places	\$659,896	\$49,332	8.08	29.05
2. Auto Dealers and Supplies	612,679	(181,883)	(22.89)	26.97
3. Other Retail	258,404	35,270	15.81	11.37
4. Food Stores	193,856	17,395	9.86	8.53
5. Building Materials	188,093	16,952	9.91	8.28
6. Business, Service & Repair	121,648	12,121	11.07	5.35
7. Service Stations	#	#	7.84	#
8. Furniture/Appliance	57,529	(6,256)	(9.81)	2.53
9. Drug Stores	#	#	84.55	#
10. Apparel Stores	29,972	3,878	14.86	1.32

* Threshold for inclusion, \$300 per quarter

Information omitted if fewer than four businesses in the category

Sales Tax by Geographic Area

LOCATION	Revenue 2003-04	% of Total	% Chg	Revenue 2004-05	% of Total
PCH	1,352,948	63%	-9%	1,236,861	59%
Downtown	481,525	22%	9%	525,520	25%
Pier/Valley/Monterey	227,030	11%	8%	245,650	12%
Aviation	81,355	4%	4%	84,931	4%



Gary Caporicci, the partner in charge of our audit, will be available at the meeting to make some comments about the CAFR and to answer any questions that you may have.

Since the reporting model is still "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.