



Financial Section

Retired

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
Manhattan Beach, City Hall
City of Manhattan Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach, California, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manhattan Beach's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Federal and State Grants Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2007 on our consideration of the City of Manhattan Beach's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the Honorable Mayor and Members of the City Council
Manhattan Beach, City Hall
City of Manhattan Beach, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual fund statements, schedules and statistical tables are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Lance, Soll & Lunghard, LLP

December 6, 2007

CITY OF MANHATTAN BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Manhattan Beach, we offer our readers of these financial statements this narrative overview and analysis of the financial activities of the City of Manhattan Beach for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to xi of this report.

FINANCIAL HIGHLIGHTS

- As of June 30, 2007, the City's total net assets citywide (including all governmental and business type activities) totaled \$170,053,430. This is an increase from the prior fiscal year of \$2,588,013, or 1.5%.
 - Governmental net assets increased by \$1,505,168 (1.2%) to \$130,548,286, primarily due to general revenues exceeding expenses by \$1,352,093, and a prior period restatement of \$153,075.
 - Business type activity net assets increased by \$1,082,845 (2.8%), largely due to investment earnings of \$935,323.
- Unrestricted net assets, which may be used to meet the government's on-going obligations within certain parameters and requirements, totaled \$43,203,170. This is an increase of \$3,456,120 (8.7%) over FY 2005-2006 levels.
- Citywide capital assets, net of depreciation, increased by \$7,165,831, or 6.5% from the prior year. This increase is mainly due to completion of the construction of the Police & Fire facility, progress on the Strand renovation, annual street improvement activities, and Water, Storm Water and Parking Fund improvements. Additionally, an adjustment of \$1.86 million to recognize the City's proportional investment in a regional emergency dispatch center has been included in FY 2006-2007.
- The City's debt increased by \$7,662,497 during FY 2006-2007. This increase is the result of the issuance of pension obligation bonds for \$6.8 million, and the addition of the debt associated with the previously mentioned emergency dispatch center (\$1.83 million), which had been considered debt of the joint power authority, but has been reclassified as City debt. It is important to note that the sale of the pension bonds also resulted in a corresponding increase in net assets for prepaid pension obligations.
- As of June 30, 2007, the General Fund balance was \$20,979,013. The Fund expenditures exceeded revenues by \$3,888,526. The imbalance was caused by the expenditure of \$6.8 million for the previously discussed pension obligation bonds without a corresponding revenue from the bond proceeds. Bond proceeds are considered "other financing sources" and do not appear as a revenue. Therefore, the increase in fund balance before transfers was \$2,911,474.
- Total Governmental Fund revenue totaled \$63,171,310, an increase of 14.2% (\$9,871,008) from the prior year. Prepayment revenues from property owners for underground assessment district construction accounted for \$5.35 million of the increase from the prior year. General taxes, charges for services and other revenues added another \$2.98 million
- Governmental Fund expenditures totaled \$74,331,770, up \$10,379,217 (16.2%) from FY 2005-2006. The pension obligation bond expenditure of \$6.8 million, as well as disbursements from the underground assessment district funds account for the increase. Additionally, the prior year included \$13 million in Police & Fire facility expenditures which were not repeated in FY 2006-2007.
- The General Fund transferred out \$3,922,885 for the following purposes:
 - \$2,459,711 to the Capital Improvement Fund for future projects
 - \$69,270 to the Street Lighting Fund to relieve a deficit from operations

- \$50,000 to the Parking Fund to maintain working capital levels
- \$1,343,904 to the Insurance Fund to mitigate on-going deficits.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Reporting on the City as a Whole

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Manhattan Beach is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs on a full-accrual basis, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government wide statement of activities has two components:

Governmental Activities

This is a consolidation of all governmental funds and includes the General Fund, Capital Projects Funds, Special Revenue Funds and Internal Service Funds. These funds are supported by taxes, intergovernmental revenues, grants, and charges for services. Expenses include materials and labor, depreciation, and amortization of prepaid pension obligations. Governmental fund expenditures for payment of principal on long debt and capital assets are excluded. All intra-governmental charges and expenses and transfers within governmental funds are eliminated.

All internal service fund expenses and depreciation on capital assets are fully allocated to each functional program. Expenses are classified among the following programs: general government, public safety, culture and recreation, and public works. Program activities that produce revenues or receive grant support are applied against program expenses to yield the net expenses. Revenues that cannot be attributed to a specific program, such as taxes and interest (e.g. General Revenues), are shown separately. The total of General Revenues, less net program expenses, generates the change in net assets. Total net assets of governmental activities differs from fund balances of governmental funds by long term assets (capital and prepaid pension), long term liabilities and the total of internal service fund net assets.

Business Type Activities

This includes all enterprise funds (Water, Waste Water, Storm Water, Refuse and Parking Funds). These activities have been traditionally presented as enterprise funds and tie directly to the *Statement of Revenues, Expenses, and Change in Net Assets – Proprietary Funds*, as shown in the Funds section of this report.

The government-wide financial statements can be found on pages 19 to 20 of this report.

Reporting on the City's Most Significant Funds

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Manhattan Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as on balances of spend-able resources available at the end of the fiscal year. In effect, the budgetary government fund statements are working capital flow of funds statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Following the governmental funds *Balance Sheet*, and *Statement of Revenues, Expenditures and Changes in Fund Balances*, there are respective reconciliations of the fund balance to *Statement of Net Assets*, and *Net Change in Fund Balances* – total governmental funds to change in net assets of governmental activities. As discussed above, the reconciliations include treatment of capital expenditures, depreciation, changes in capital assets, long term debt, prepaid pension costs, full accrual versus modified accrual and change in net assets of internal service funds

The City of Manhattan Beach maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects funds, all of which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

The City of Manhattan Beach adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24 to 41 of this report.

Proprietary funds: Proprietary funds account for goods and services provided to customers and for cost recovery via service charges. There are two types of proprietary funds: enterprise funds which provide services to outside users (residents and businesses of Manhattan Beach), and internal service funds, which provide services to City departments. The City uses internal service funds to account for its fleet of vehicles, computer systems, shared building and maintenance costs, and City-wide insurance costs. Because these services predominantly benefit the governmental function, they have been included within governmental activities in the government-wide financial statements and related intra-governmental charges and transfers have been eliminated accordingly, except for charges and transfers to the enterprise funds, which are quasi-internal transactions.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All four internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements. Three of the City's seven enterprise funds are considered major funds and presented as such in the fund financial statements. The four non-major

funds, Storm Water, Refuse, County and State parking lots, are presented individually in the combining statements.

The combining statements referred to earlier in connection with non-major governmental funds, proprietary and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 84 to 114 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43 to 82 of this report.

The City as Trustee

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budget-to-actual financial comparisons for the General Fund. The City has elected to present this information within the basic financial statement and financial statement sections of the report. Note 9 provides a detailed analysis of City retirement plans.

All of the City's fiduciary activities are reporting distinctly in a separate Statement of Fiduciary Assets and Liabilities. These figures are not combined with other financial statements because the City cannot use these assets to finance present or future operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Manhattan Beach, net assets totaled \$170,053,430 at June 30, 2007.

By far, the largest portion of the City's net assets (69%) reflects its investment in capital assets (e.g., land, infrastructure, buildings and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

City of Manhattan Beach Net Assets

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 56,880,075	\$ 55,041,683	\$ 17,835,432	\$ 18,450,554	\$ 74,715,507	\$ 73,492,237
Capital Assets	117,352,597	110,186,766	39,837,692	38,427,032	157,190,289	148,613,798
Total Assets	174,232,672	165,228,449	57,673,124	56,877,586	231,905,796	222,106,035
Long term Liabilities						
Outstanding	33,281,489	26,123,142	16,086,855	16,439,899	49,368,344	42,563,041
Other Liabilities	10,402,897	10,062,189	2,081,125	2,015,388	12,484,022	12,077,577
Total Liabilities	43,684,386	36,185,331	18,167,980	18,455,287	61,852,366	54,640,618
Invested in Capital Assets						
Net of Related Debt	93,644,407	87,848,226	23,447,692	21,672,032	117,092,099	109,520,258
Restricted	8,011,040	16,335,884	1,747,121	1,862,225	9,758,161	18,198,109
Unrestricted	28,892,839	24,859,008	14,310,331	14,888,042	43,203,170	39,747,050
Total Net Assets	\$ 130,548,286	\$ 129,043,118	\$ 39,505,144	\$ 38,422,299	\$ 170,053,430	\$ 167,465,417

Net assets of the City's *Governmental* activities amounted to \$130.55 million, an increase over the prior year of \$1.51 million. Of the \$130.55 million, \$93.64 million is invested in capital assets net of related debt such as land, buildings, machinery, infrastructure, equipment and other improvements; \$8.01 million is restricted for debt service or for Special Revenue Fund resources that are subject to external restrictions on use. The balance of unrestricted net assets (\$28.89 million) may be used to meet the government's ongoing obligations to citizen services and creditors. A significant portion of this remaining balance is subject to capital project designations and policy reserves displayed in financial Note 8.

Net assets of the City's *Business-type* activities totaled \$39.51 million. This represents an increase from FY 2005-2006 of \$1.08 million. \$23.45 million is invested in capital assets (land, buildings, machinery, equipment, etc.) net of related debt, while \$1.75 million is reserved for debt service and for business improvement district use. \$14.31 million is unrestricted and may be used at the City Council's discretion.

The City's total change in net assets amounts to \$2.59 million. The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ending June 30, 2007 and June 30, 2006:

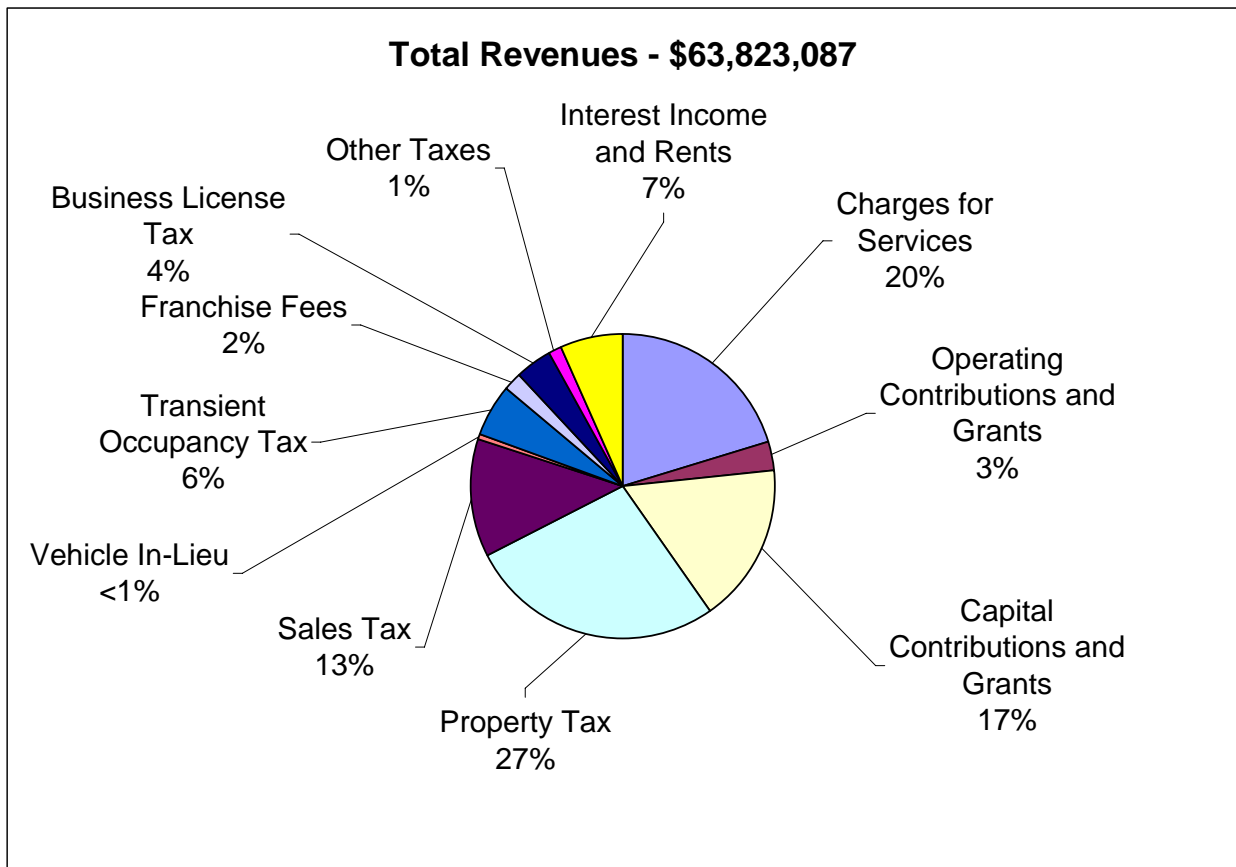
City of Manhattan Beach Changes in Net Assets

	Governmental Activities		Business -Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues:						
Charges for Services	\$ 12,904,269	\$ 11,484,126	\$ 14,889,212	\$ 14,097,876	\$ 27,793,481	\$ 25,582,002
Operating Contributions and Grants	1,933,403	2,767,865	10,861	19,758	1,944,264	2,787,623
Capital Contributions and Grants	10,923,007	5,598,244	-	-	10,923,007	5,598,244
General Revenues:						
Property Taxes	17,257,507	15,666,320	-	-	17,257,507	15,666,320
Other Taxes	16,223,609	15,911,571	-	-	16,223,609	15,911,571
Motor Vehicle in Lieu	245,008	835,709	-	-	245,008	835,709
Other	4,336,284	3,033,968	935,323	546,197	5,271,607	3,580,165
Total Revenues	63,823,087	55,297,803	15,835,396	14,663,831	79,658,483	69,961,634
Expenses:						
General Government	9,057,584	7,070,028	-	-	9,057,584	7,070,028
Public Safety	27,134,132	24,270,798	-	-	27,134,132	24,270,798
Public Works	19,721,241	10,380,032	-	-	19,721,241	10,380,032
Parks & Recreation	5,593,739	4,724,704	-	-	5,593,739	4,724,704
Interest on Long-Term debt	990,298	875,519	-	-	990,298	875,519
Water, Waste, Storm	-	-	8,894,850	7,950,790	8,894,850	7,950,790
Refuse	-	-	3,858,401	3,692,611	3,858,401	3,692,611
Parking	-	-	1,973,300	1,623,963	1,973,300	1,623,963
Total Expenses	62,496,994	47,321,081	14,726,551	13,267,364	77,223,545	60,588,445
Revenues Over Expenses	1,326,093	7,976,722	1,108,845	1,396,467	2,434,938	9,373,189
Transfers In (Out)	26,000	(204,000)	(26,000)	204,000		
Increase (Decrease) in Net Assets	1,352,093	7,772,722	1,082,845	1,600,467	2,434,938	9,373,189
Net Assets - Beginning	129,043,118	121,270,396	38,422,299	36,821,832	167,465,417	158,092,228
Restatement	153,075	-	-	-	153,075	-
Net Assets - June 30 (Year End)	\$ 130,548,286	\$ 129,043,118	\$ 39,505,144	\$ 38,422,299	\$ 170,053,430	\$ 167,465,417
Total Change from Prior Year	<u>\$ 1,505,168</u>	<u>\$ 7,772,722</u>	<u>\$ 1,082,845</u>	<u>\$ 1,600,467</u>	<u>\$ 2,588,013</u>	<u>\$ 9,373,189</u>

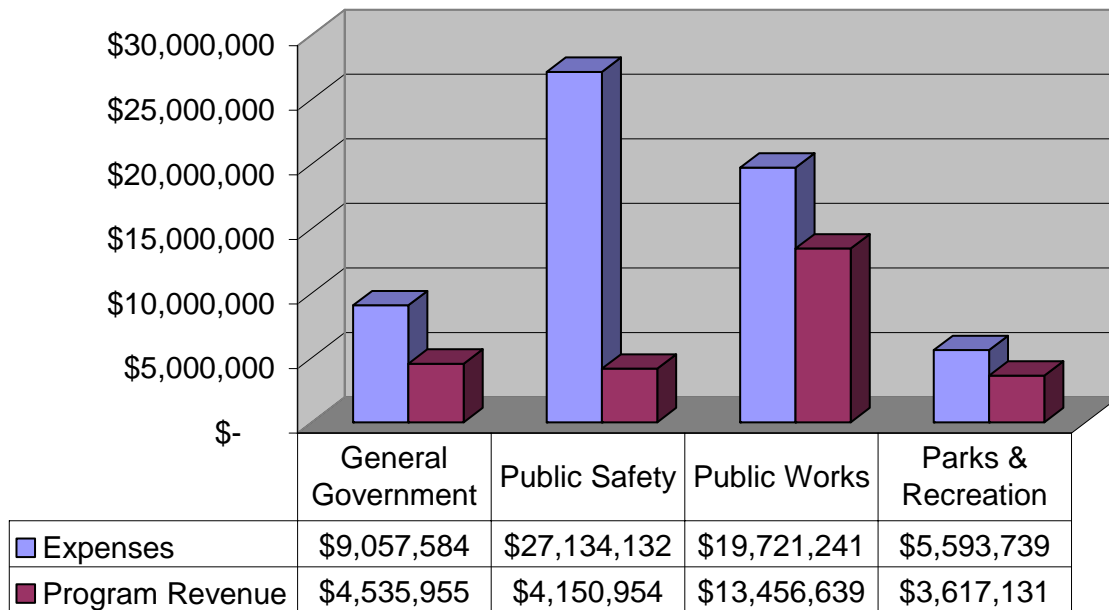
Changes in Net Assets - Governmental Activities

The City's governmental activities in FY 2006-2007 increased net assets by \$1.51 million, which was a 1.2% increase from FY 2005-2006. Revenues and transfers exceeding expenditures by \$1.35 million is the primary reason for this increase.

Revenues by Source - Governmental Activities - Fiscal Year 2007



**Governmental Activities Revenue and Expenses
by Function/Program
Year Ended June 30, 2007**



Functional expenses (excluding interest on debt) for the years ending June 30, 2007 and 2006 were as follows:

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General Government	\$ 9,057,584.00	\$ 7,070,028.00	\$ (4,521,629.00)	\$ (1,361,773.00)
Public Safety	27,134,132	24,270,798	(22,983,178)	(20,529,650)
Public Works	19,721,241	10,380,032	(6,264,602)	(2,545,871)
Parks and Recreation	5,593,739	4,724,704	(1,976,608)	(2,158,033)
Total	<u>\$ 61,506,696.00</u>	<u>\$ 46,445,562.00</u>	<u>\$ (35,746,017.00)</u>	<u>\$ (26,595,327.00)</u>

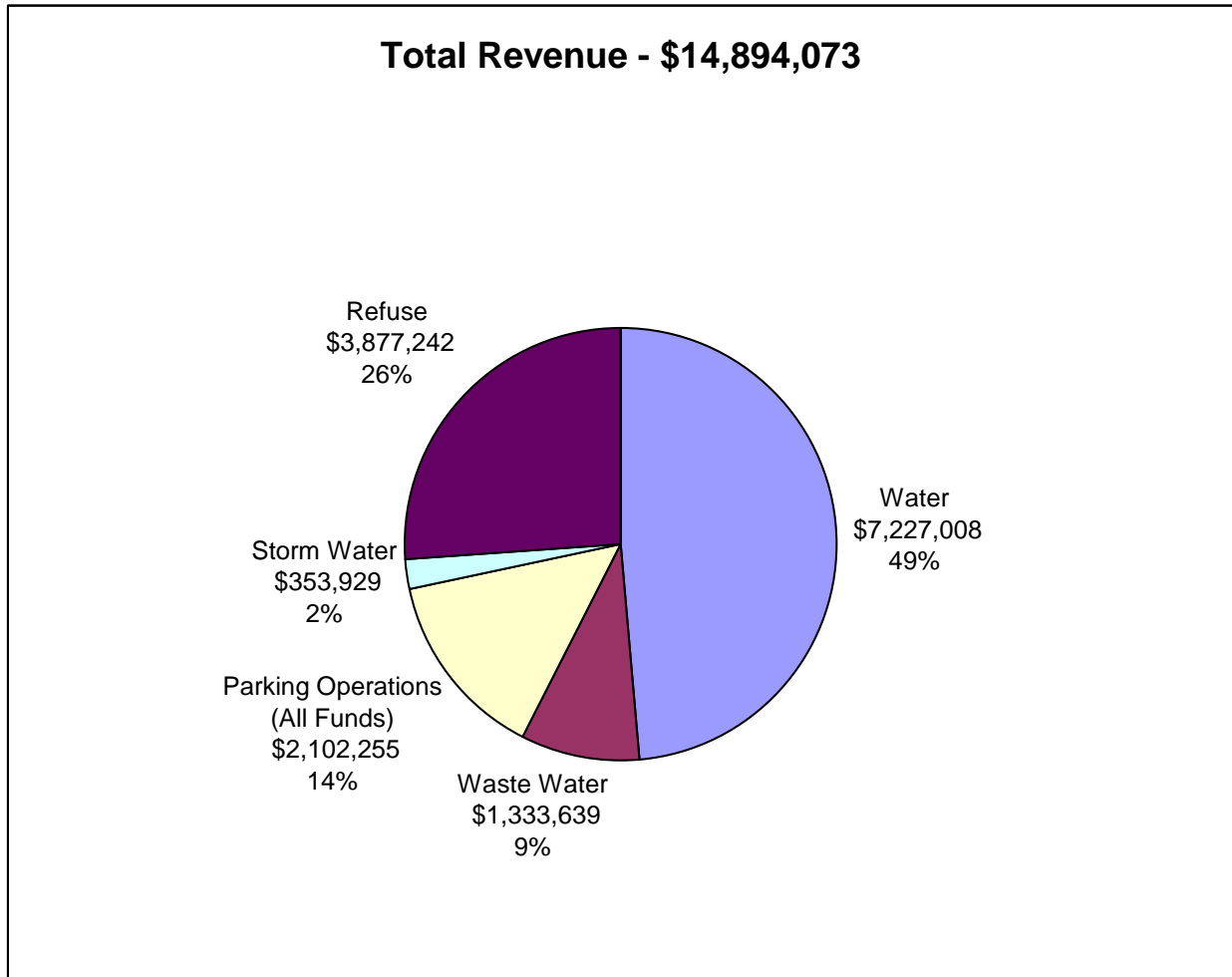
In total, the net cost of services increased by \$9.15 million, or 34% from the prior year. Activities contributing to the change include:

- Disbursements for Utility Underground Assessment District construction projects
- Salary and benefit cost increases citywide
- Reduced revenue from real estate related activities including building permits and plan check fees
- Increased building maintenance and utility costs

Business Type Activities

In fiscal year 2006-2007, revenues for the City's business type activities amounted to \$14,894,073, including \$10,861 in Refuse Fund grants. Total operating expenses equaled \$13,894,377 for a positive operating income of \$988,835 before non-operating revenues, expenses and transfers. When considering the impact of those activities, net assets increased by \$1,082,845 this current year.

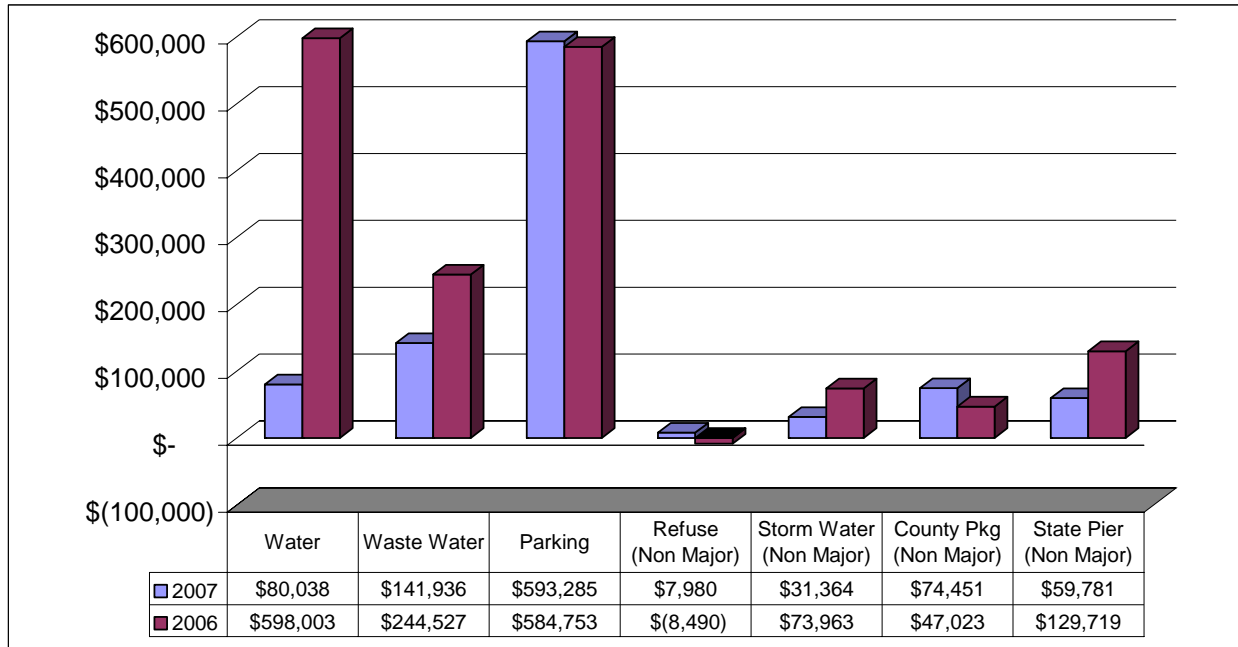
Revenues by Source - Business Type Activities FY 2007



The City's business-type activities increased net assets by \$1.08 million, or 2.8%. This was primarily due to interest income across all funds of \$935,323.

Operating Income varied across the business-type activities in FY 2007. A year-over-year comparison is presented below. Further analysis of the major funds is discussed later in this report.

Operating Income for Business-Type Activities for 2006 & 2007



FUND FINANCIAL STATEMENTS

Governmental Funds

As of the end of the 2007 fiscal year, the City's governmental funds ending fund balances totaled \$34.4 million, a decrease of \$5.68 million in comparison with the prior year. Activities contributing to this decrease include:

- The use of resources for construction of underground utility districts. The source of these funds is from assessments paid by property owners for the purpose of placing utility lines underground. The net change from this use was \$2.6 million within the Underground Assessment District fund;
- Planned expenditures of \$2.16 million in the Safety and Civic Center Construction Fund for completion of the new Police & Fire facility.
- A decrease in Special Revenue Funds balance of \$519,394 due to extensive capital improvement projects in the gas Tax Fund.
- Capital improvement projects totaling \$2.1 million for Strand Improvements (\$1.26 million), furniture, fixtures and equipment for the new Police & Fire facility (\$552,000) and \$916,000 for City Hall upgrades and the Facilities Strategic Planning process
- The transfer of \$1.34 million out to the Insurance Reserve Fund.

These decreases were offset by General Fund flow of resources over expenditures of \$2.9 million. Resources include revenues plus proceeds of debt issuance which are not included in the revenues. However, the corresponding use of debt proceeds was included in the expenditures.

Approximately 75% of the total Governmental Funds total, \$26.2 million, constitutes unreserved fund balance. The remainder of the fund balance (\$8.2 million) is reserved to indicate that it is not available for new spending because it has already been committed for on-going capital projects, purchase orders of the prior period, and for legally-required debt service reserves.

It is important to note that City Council established fund designations in its financial policy requirements and budgetary capital planning initiatives. Components of fund balances are listed in Note 8 of these financial statements. Of the \$26.2 million unreserved governmental fund balance noted above, \$17 million has been designated by City Council actions, and \$657,891 remain restricted for underground utility payments. Considering these designations, \$9.2 million in governmental fund balances (General, Capital Improvement, Gas Tax, Prop A, Prop C, Funds, etc.) remain unreserved and undesignated.

General Fund

The General Fund is the chief operating fund of the City of Manhattan Beach. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$19.7 million, while total fund balance was \$20.98 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 43% (5 months) of total General Fund expenditures, while total fund balance represents 46% (5.5 months) of that same amount (once the one-time extraordinary expenditure of \$6.8 million for pension obligation bonds is discounted).

During the current fiscal year, General Fund expenditures exceeded revenues by approximately \$3.89 million. This imbalance is primarily the result of the issuance of pension obligation bonds for \$6.8 million. This transaction, which involved receiving bond proceeds and then disbursing the proceeds to the pension system (CalPERS), has the effect of a \$6.8 million expenditure without the benefit of the bond proceeds as an offsetting revenue. The bond proceeds are stated as "Other Financing Sources" which appear after the comparison of revenues and expenditures. When considering the \$6.8 million in bond proceeds, the General Fund increase before transfers was \$2.9 million.

Net transfer activity in this fund totaled \$3,714,321, and included the following transfers:

- The General Fund transferred \$2,459,711 into the Capital Improvement Fund for future projects
- Funds totaling \$1,343,904 was transferred to the Insurance Reserve Fund to alleviate on-going deficits.
- The Street Lighting Fund received \$69,270 to relieve a deficit fund balance.
- The Parking Fund received \$50,000 from the General Fund to maintain working capital levels.
- \$76,000 of excess reserves from the County Lot Fund was transferred to the General Fund in line with the contract with the County of Los Angeles.

Capital Improvement Fund

The Capital Improvement Fund serves to plan and manage the construction and maintenance of non-enterprise Projects are funded through dedicated revenue sources as well as General Fund surpluses which may arise from year to year. Along with its operating budget, the City adopts a five-year capital project plan on an annual basis in which City Council priorities are planned. The Capital Improvement Fund is one of the major funds covered in that City-wide plan.

At the end of the current fiscal year, the unreserved fund balance of the Capital Improvement Fund was \$3.0 million, while total fund balance reached \$7.55 million. \$1 million of the unreserved balance has been specifically earmarked for the underground assessment district loan program, leaving \$2 million in undesignated fund balance at June 30, 2007 (please see Note 8 to these financial statements). Project reserves, which total \$3.64 million at year-end include:

- \$1.07 million for Playground equipment
- \$753,690 for the Manhattan Village soccer field artificial turf project
- \$443,790 to complete the Strand improvement project
- \$280,000 for Live Oak and Manhattan Heights fencing projects
- \$100,000 for Downtown Streetscape improvements
- \$100,000 for improvements to Artesia Boulevard

During Fiscal Year 2006-2007, the Capital Improvement Fund expenditures exceeded revenues by \$2.12 million. However, fund balance increased by \$1.78 million. The increase is the result of the completion of the Police/Fire facility, which allowed for a transfer of \$1.44 in remaining funds from the construction fund to the CIP fund. Additionally, the prior year General Fund surplus funded a transfer in of \$2.46 million. Please see Note 4 for further details.

Dedicated revenues in this fund amounted to \$1.23 million in FY 2006-2007. These revenues are earmarked for funding general government capital improvement projects in the effort to maintain and enhance City infrastructure. A breakdown of these follows:

Hotel Tax: 15% of the Transient Occupancy Tax has been dedicated to funding CIP's. This has resulted in the generation of \$542,000 of revenue for the year. This is 15% above prior year levels marking a significant increase in general local tourism and patronage.

Parking Meter Rates: A twenty-five cent per hour increment of on-street parking meter rates, dedicated to capital improvements, generated revenue of \$556,178 this fiscal year. Actual revenues were slightly ahead of budget estimates, and even with last year's results.

Parking Citation Rates: Four dollars of most parking citations is dedicated to the CIP fund. For FY 2006-2007, revenue of \$127,384 was realized; an increase of 18% over the prior year.

This fund realized \$384,000 in grants, permits, interest and other revenue.

Capital Improvement Fund expenditures equaled \$3.73 million which included:

- \$1.26 million for Strand Improvements
- \$815,105 for Police & Fire facility debt service
- \$601,852 for City Hall upgrades and rehabilitation
- \$382,900 for the Facilities Strategic Plan project
- \$338,312 towards the artificial turf project at the Manhattan Village soccer field
- \$301,352 in furniture, fixtures and equipment, as well as some related construction cost, for the completion of the Police/Fire facility

Other Governmental Funds

Other non major governmental funds include all Special Revenue funds used exclusively to account for intergovernmental and assessment proceeds which are restricted in use by law. This group of funds includes the Street Lighting Fund, Federal and State Grants Fund, Gas Tax Fund, Propositions A and C Funds, Asset Forfeiture Fund, Police Safety Grant Fund and the Air Quality Management Fund. The majority of the dollars which flow through these funds are used for the maintenance of streets, parks, local transportation programs and the purchase of safety and fuel efficient equipment.

In 2006-2007, these funds operated within budget guidelines. Combined fund balances at year-end approximated \$5.2 million, a decrease of \$500,000 from 2006. Gas Tax projects totaling \$2 million for

sidewalk repair and street resurfacing were the main reason for the decrease in overall fund balances. Changes in fund balances for this group can be expected to fluctuate as capital projects are expended over time.

One fund in particular, the Street Lighting Fund, continues to run deficits each year. For FY 2006-2007, expenditures exceeded revenues by \$146,100, eliminating any remaining fund balance. As a result, the General Fund contributed \$69,270 for continued operations. General Fund contributions will be necessary until a Proposition 218 assessment vote is successful in raising the assessment rates and revenues.

Proprietary Funds

The City's proprietary funds consist of enterprise funds and internal service funds. The enterprise funds include Water, Waste Water and Parking Funds (major funds), as well as Storm Water, Refuse, and both the County and State Parking Lot Funds (which are considered non-major). Internal service funds include Insurance Reserve, Information Systems, Fleet Management and Building Maintenance and Operations.

At year-end, total net assets of all enterprise funds amounted to \$39.5 million, of which \$14.3 million is unrestricted. Within that amount, Council, by policy, has established certain designations for continuing CIP's and financial policy goals, which total \$6.4 million. The remaining restricted balance has been classified as such given the existence of legal reserve requirements for ongoing bonded capital projects, business improvement district funds and debt service requirements.

Overall, enterprise funds combined net income was \$1.1 million before transfers. Net assets increased for all funds by \$1.1 million including a contractual \$76,000 transfer out to the General Fund from the County Lot Fund, and \$50,000 in from the General Fund in support of the Parking Fund.

Several enterprise funds are worth noting this year. In each of these cases, operating expenses are rising at a greater pace than revenues, signifying the need for future rate increases to sustain the operations:

- Water Fund net income from operations fell from \$598,000 in FY 2006 to \$80,000 in 2007 – the result of operating expenses (labor, materials, services, etc.) rising by 12.7%, while revenues only rose at a rate of 4%.
- Waste Water Fund net operating income decreased by 42% from \$244,530 in FY 06 to \$141,940 for FY 07. Operating expenses increased by 12%, or \$125,608.
- Storm Water Fund net operating income dropped from the prior year by \$42,600 (58%) due to operating expenses increasing by 51,201 (19%)

The reduction in net operating income in all three funds is mitigated somewhat from non-operating revenues (interest income). However, the message remains that rate increases will be necessary to maintain levels of service.

Another fund worth noting is the Parking Fund. The fund income, before transfers, was \$121,664 and year end Net Assets were \$7.25 million. Of the total net assets amount, \$907,575 remains unrestricted. This year's operation included Metlox bond interest expense of \$598,559 which was supported by the Fund's revenue stream. It is important to note that while the fund had positive net income, the overall cash flow generated from parking operations is insufficient to meet payment of bond principal and provide for future capital improvements. For FY 2006-2007, the fund experienced negative cash flow of \$292,422. A transfer from the General Fund for \$50,000 maintained policy (working capital) reserve levels within the fund. Future transfers will be required to sustain the fund, unless future action is taken to enhance the revenues associated with the operations.

Unrestricted net assets of the internal service funds at the end of the year amounted to \$2.6 million with a net assets total of \$5.8 million. Net assets increased by \$1,510,600, largely due to the transfer-in of \$1.34 million from the General Fund to the Insurance Reserve fund to provide adequate funding and working capital reserves. Despite increased charge-outs to the using departments, the Insurance Reserve fund continues to experience increasing claims cost and requires General Fund transfers. FY 2006-2007 claims totaled \$2.96 million, \$523,177 ahead of FY 2005-2006 levels. The City continues to look for ways to proactively manage risk and reduce these costs.

General Fund Budgetary Highlights

Estimated Revenues

The difference between the original estimated revenues and final estimated revenues was \$7,096,572. The primary component of this increase was \$6.8 million in bond proceeds for the pension obligation bonds previously discussed. This amount was offset by a \$6.8 million appropriation in following section. In addition, there were increases of \$188,000 matching reimbursable appropriations shown in following section

Appropriations

The final amended budget reflects an increase of \$7,906,289 over the adopted appropriations.

Significant budget adjustments included:

- \$6,800,000 for safety pension obligation bonds
- \$291,889 in re-appropriations for open purchase orders from fiscal 2005-2006.
- \$275,000 for an engineering analysis for underground assessment districts 12, 13, & 14
- \$110,000 for Fire Department overtime incurred due to mutual support (reimbursable)
- \$62, 000 for Begg pool maintenance
- \$93,706 for bond interest on the pension obligation bonds.
- \$67,008 for four replacement defibrillators (reimbursable grant)

Aside from purchase order carry over, pension obligation bonds and reimbursable expenditures, total appropriation adjustments were \$518,123 (1.1% of original appropriation), over half of which was due to underground assessment engineering costs that will be reimbursed in the future if the districts are formed.

Capital Asset and Debt Administration

Capital Assets: The City's investment in capital assets government wide as of June 30, 2007, is \$157,190,292 (net of accumulated depreciation). This is an increase from the prior year of \$8.6 million, or 6%. This investment in capital assets includes land, buildings, park improvements, roadways, sewer, storm drains, vehicles, computer equipment, furniture and other equipment.

City of Manhattan Beach Capital Assets
(Net of depreciation)

	Governmental Activities		Business -Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 33,634,566	\$ 33,634,566	\$ 1,757,434	\$ 1,757,434	\$ 35,392,000	\$ 35,392,000
Buildings	42,451,235	2,669,999	15,750,237	1,276,588	58,201,472	3,946,587
Machinery & Equipment	2,567,276	2,265,024	312,971	258,446	2,880,247	2,523,470
Vehicles	3,123,711	2,961,236	-	-	3,123,711	2,961,236
Infrastructure	27,711,821	28,466,520	20,453,153	19,775,538	48,164,974	48,242,058
Work In Progress	7,863,988	40,189,421	1,563,900	15,359,026	9,427,888	55,548,447
Total	<u>\$117,352,597</u>	<u>\$ 110,186,766</u>	<u>\$ 39,837,695</u>	<u>\$ 38,427,032</u>	<u>\$ 157,190,292</u>	<u>\$ 148,613,798</u>

During the current fiscal year, governmental capital assets increased by \$7.2 million (6.5%). The increase is the result of the following activities:

- Construction of the new Police and Fire facility, which added \$2 million
- Progress on the Strand Improvements for \$1.26 million
- \$1.86 million as a result of the prior period adjustment due to the City's proportional ownership of South Bay Regional Public Communications Authority (RCC) facility. This facility was previously recorded as an asset of the Joint Powers Authority, of which the City is a member. The debt associated with the facility has also been added to the City's liabilities.
- \$1.5 million of vehicle purchases, machinery and equipment.
- Annual street resurfacing and sidewalk improvement activities which added \$1.99 million

During the current fiscal year, \$1.4 million in additions to business type activity assets were realized, the bulk of which relates to the following items:

- Water system improvements for \$1.19 million
- Parking structure maintenance for a total of \$223,707
- Storm Water projects which added \$44,000

Additional information on the City's capital assets can be found in Note 5 of this report.

Long Term Liabilities: Total long term debt is \$55,374,180, an increase of \$6,523,345 over fiscal 2005-2006. Governmental liabilities increased by \$6,862,161 and business type liabilities decreased by \$338,816.

City of Manhattan Beach Outstanding Liabilities

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Marine Avenue COP's	\$ 8,580,000	\$ 8,780,000	\$ -	\$ -	\$ 8,580,000	\$ 8,780,000
Capital Equipment Lease	558,190	720,693	-	-	558,190	720,693
Police & Fire Facility COP's	12,740,000	12,980,000	-	-	12,740,000	12,980,000
Accrued Employee Leave & Benefits	2,226,775	1,995,445	81,579	55,395	2,308,354	2,050,840
Supplemental Leave	35,595	41,536	-	-	35,595	41,536
Water and Wastewater COP's	-	-	3,820,000	3,920,000	3,820,000	3,920,000
Metlox Parking COP's	-	-	12,570,000	12,835,000	12,570,000	12,835,000
Pension Obligation Bonds	6,800,000	-	-	-	6,800,000	-
So. Bay Communications (RCC)	1,830,000	1,905,000	-	-	1,830,000	1,905,000
Insurance Claim Reserves	5,963,069	5,441,774	-	-	5,963,069	5,441,774
Unamortized Bond Premium	168,972	175,993	-	-	168,972	175,993
	<u>\$ 38,902,601</u>	<u>\$ 32,040,441</u>	<u>\$ 16,471,579</u>	<u>\$ 16,810,395</u>	<u>55,374,180</u>	<u>48,850,836</u>
Total Liabilities						
Current	<u>\$ 5,621,112</u>	<u>\$ 4,012,298</u>	<u>\$ 384,724</u>	<u>\$ 370,496</u>	<u>6,005,836</u>	<u>4,382,794</u>
Long Term Liabilities	<u>\$ 33,281,489</u>	<u>\$ 28,028,143</u>	<u>\$ 16,086,855</u>	<u>\$ 16,439,899</u>	<u>\$49,368,344</u>	<u>\$44,468,042</u>

Governmental

As can be seen in the above table, there is new governmental debt of \$6,800,000 due to the issuance of pension obligation bonds. The proceeds from this issue were used to payoff police and fire pension side fund obligations with the California Public Employees Retirement System (CalPERS). These obligations represent the balance of unfunded liabilities of the police and fire plans that existed at the time the police and fire plans were transitioned to like-plan pools effective fiscal 2005-2006. Through the sale of the bonds, the City will realize cost savings since the effective rate of the bonds is substantially lower than the imputed amortization interest rate at CalPERS (refer to Note 9 for a description of City retirement plans).

Principal obligations for existing debt were reduced in accordance with existing debt service schedules. The total decrease was \$677,503. This decrease was offset by increases in liabilities for compensated absences and insurance which totaled \$752,625. The increase in insurance reserves is due to workers compensation and liability cases. The increase in compensated absences is due to increases in salary and accrued leave hours.

For comparison purposes, the 2006 liabilities include the principal balance of the South Bay Regional Public Communications Authority (RCC) bond that is included in the restatement of net assets (refer to Note 16).

Business Type

Long term liabilities decreased as a result of the reduction in bond principal of \$365,000 (\$100,000 in Water/Waste Water bonds and \$265,000 in Metlox Public Improvement bonds). This reduction was offset by an increase of \$26,184 in employee leave and benefits. No new debt was issued in FY 2006-2007.

For the details regarding components of long term liabilities refer to Note 6.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3.75% of its total assessed valuation. The current debt limitation for the City of Manhattan Beach is \$372,204,931.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council adopted a balanced FY 2007-2008 operating budget in June 2007.

The City's major General Fund revenue sources remain strong. Property Tax, which is our single biggest source, has seen near double-digit growth rates for the past several years. In anticipation of a housing and building activity slow down, we conservatively projected 2007-2008 property taxes to exceed 2006-2007 collections by 2%. Subsequent to adoption of the budget, the assessed valuations for 2007-2008 were published by the County, indicating 9.9% growth in FY 2007-2008. While such rates of growth are not expected to continue, we expect the housing market to remain stable. Our second largest revenue source in the General Fund, Sales Tax, is projected to increase by 2% over FY 2006-2007 results. Transient Occupancy Tax, which has seen strong growth in the past two years, is projected to be 3.5% over the prior year. In keeping with the anticipated housing slow down, we reduced building permit and plan check fees.

On the expenditure side of the equation, there are long term labor agreements in place with the three bargaining units (Police, Fire and Miscellaneous), with the first expiration date occurring in summer 2010. These agreements give us a measure of predictability in our labor costs, which equal nearly 70% of the General Fund expenditures. On a related note, however, the City will be faced with increased retiree medical liabilities with the passage in 2006 of State Assembly bill AB 2544. This legislation requires the City, as a subscriber to the CalPERS medical plans, to provide certain minimum cash contributions towards retirees' medical premiums, effective January 1, 2008.

Along with AB 2544, the City has proactively prepared for the implementation of GASB 45 in FY 2008-2009. In late 2007, the City ordered an actuarial report addressing the liabilities associated not only with AB 2544, but for existing retiree health plans for the labor groups. The total liabilities associated with these plans totals \$5.7 million. The City has already set aside \$2.5 million for these liabilities, and will be considering our options for amortizing the remaining unfunded liability.

The City is in the process of identifying the next round of major capital improvements through our Facilities Strategic Plan. A steering committee consisting of City Council and community members have held many public meetings to receive input, and identified several options for future recreation and other public facilities. While the ultimate plan is yet to be identified, construction of these facilities will most likely require outside funding, the sources of which will need to be identified and evaluated.

Overall, the General Fund budget anticipates revenues and expenditures to increase 6.7% over the prior year's budget. Our five-year forecast assumes expense patterns will remain in line with normal historical trends.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the City of Manhattan Beach for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 1400 Highland Avenue, Manhattan Beach, CA 90266.



Government-Wide Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 41,702,168	\$14,835,389	\$ 56,537,557
Receivables:			
Accounts	485,345	940,846	1,426,191
Taxes	2,804,462	-	2,804,462
Accrued interest	743,626	-	743,626
Prepaid costs	19,430	521	19,951
Inventories	126,545	66,452	192,997
Due from other governments	355,757	156,502	512,259
Total Current Assets	46,237,333	15,999,710	62,237,043
Noncurrent:			
Restricted assets:			
Cash and investments	2,801,554	1,501,070	4,302,624
Unamortized debt issuance costs	468,054	334,652	802,706
Prepaid pension obligation	7,359,002	-	7,359,002
Loans receivable	14,132	-	14,132
Capital assets not being depreciated	43,353,821	3,321,330	46,675,151
Capital assets, net of depreciation	73,998,776	36,516,362	110,515,138
Total Noncurrent Assets	127,995,339	41,673,414	169,668,753
Total Assets	174,232,672	57,673,124	231,905,796
Liabilities:			
Current:			
Accounts payable	1,820,122	1,282,509	3,102,631
Accrued liabilities	1,028,685	-	1,028,685
Deposits payable	730,163	50,452	780,615
Unearned revenue	824,259	-	824,259
Interest payable	378,556	363,440	741,996
Long-term liabilities due within one year	5,621,112	384,724	6,005,836
Total Current Liabilities	10,402,897	2,081,125	12,484,022
Noncurrent liabilities:			
Long-term liabilities due in more than one year	33,281,489	16,086,855	49,368,344
Total Liabilities	43,684,386	18,167,980	61,852,366
Net Assets:			
Invested in capital assets, net of related debt	93,644,407	23,447,692	117,092,099
Restricted for:			
Business improvement districts	-	536,856	536,856
Debt service	2,801,554	1,210,265	4,011,819
Special revenue uses	5,209,486	-	5,209,486
Unrestricted	28,892,839	14,310,331	43,203,170
Total Net Assets	\$ 130,548,286	\$39,505,144	\$ 170,053,430

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 9,057,584	\$ 4,535,955	\$ -	\$ -
Public safety	27,134,132	3,433,570	717,384	-
Culture and recreation	5,593,739	2,261,707	1,208,182	147,242
Public works	19,721,241	2,673,037	7,837	10,775,765
Interest on long-term debt	990,298	-	-	-
Total Governmental Activities	62,496,994	12,904,269	1,933,403	10,923,007
Business-Type Activities:				
Water	7,303,547	7,227,008	-	-
Stormwater	322,566	353,929	-	-
Wastewater	1,268,737	1,333,639	-	-
Refuse	3,858,401	3,866,381	10,861	-
Parking	1,416,681	1,411,406	-	-
County Parking Lot	303,122	377,572	-	-
State Pier and Parking Lot	253,497	319,277	-	-
Total Business-Type Activities	14,726,551	14,889,212	10,861	-
Total Primary Government	\$77,223,545	\$27,793,481	\$ 1,944,264	\$ 10,923,007

General Revenues:

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Business licenses taxes

Other taxes

Intergovernmental, unrestricted:

Motor vehicle in lieu

Investment earnings and rent

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

Net Assets at End of Year

**Net (Expenses) Revenues and Changes in Net Assets
Primary Government**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (4,521,629)	\$ -	\$ (4,521,629)
(22,983,178)	-	(22,983,178)
(1,976,608)	-	(1,976,608)
(6,264,602)	-	(6,264,602)
(990,298)	-	(990,298)
(36,736,315)	-	(36,736,315)
-	(76,539)	(76,539)
-	31,363	31,363
-	64,902	64,902
-	18,841	18,841
-	(5,275)	(5,275)
-	74,450	74,450
-	65,780	65,780
-	173,522	173,522
(36,736,315)	173,522	(36,562,793)
17,257,507	-	17,257,507
3,665,741	-	3,665,741
8,104,778	-	8,104,778
1,200,503	-	1,200,503
2,464,239	-	2,464,239
788,348	-	788,348
245,008	-	245,008
4,336,284	935,323	5,271,607
26,000	(26,000)	-
38,088,408	909,323	38,997,731
1,352,093	1,082,845	2,434,938
129,043,118	38,422,299	167,465,417
153,075	-	153,075
\$ 130,548,286	\$ 39,505,144	\$ 170,053,430

See Notes to Financial Statements



Fund Financial Statements

CITY OF MANHATTAN BEACH

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>Capital Projects Funds</u>		
	<u>General</u>	<u>Capital Improvement</u>	<u>Underground Assessment District</u>
Assets:			
Pooled cash and investments	\$19,611,768	\$ 6,952,054	\$ 104,396
Receivables:			
Accounts	366,265	114,133	-
Taxes	2,804,462	-	-
Accrued interest	743,626	-	-
Prepaid costs	19,430	-	-
Due from other governments	260,499	-	-
Due from other funds	20,000	-	-
Restricted assets:			
Cash and investments	1,066,128	1,101,931	633,495
Total Assets	<u>\$24,892,178</u>	<u>\$ 8,168,118</u>	<u>\$ 737,891</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 659,493	\$ 330,524	\$ -
Accrued liabilities	1,028,685	-	-
Due to other funds	-	-	-
Deferred revenues	656,859	-	-
Unearned revenue	824,259	-	-
Interest payable	93,706	284,850	-
Deposits payable	650,163	-	80,000
Total Liabilities	<u>3,913,165</u>	<u>615,374</u>	<u>80,000</u>
Fund Balances:			
Reserved for:			
Encumbrances	487,666	-	-
Continuing projects	-	3,736,108	657,891
Prepaid costs	19,430	-	-
Debt service	972,422	817,081	-
Unreserved:			
Unreserved, reported in:			
General Fund	19,499,495	-	-
Special revenue funds	-	-	-
Capital projects funds	-	2,999,555	-
Total Fund Balances	<u>20,979,013</u>	<u>7,552,744</u>	<u>657,891</u>
Total Liabilities and Fund Balances	<u>\$24,892,178</u>	<u>\$ 8,168,118</u>	<u>\$ 737,891</u>

CITY OF MANHATTAN BEACH

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	Other Governmental Funds	Total Governmental Funds
Assets:		
Pooled cash and investments	\$ 5,823,590	\$ 32,491,808
Receivables:		
Accounts	10,894	491,292
Taxes	-	2,804,462
Accrued interest	-	743,626
Prepaid costs	-	19,430
Due from other governments	95,258	355,757
Due from other funds	-	20,000
Restricted assets:		
Cash and investments	-	2,801,554
Total Assets	\$ 5,929,742	\$ 39,727,929
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 700,256	\$ 1,690,273
Accrued liabilities	-	1,028,685
Due to other funds	20,000	20,000
Deferred revenues	-	656,859
Unearned revenue	-	824,259
Interest payable	-	378,556
Deposits payable	-	730,163
Total Liabilities	720,256	5,328,795
Fund Balances:		
Reserved for:		
Encumbrances	9,427	497,093
Continuing projects	2,357,962	6,751,961
Prepaid costs	-	19,430
Debt service	-	1,789,503
Unreserved:		
Unreserved, reported in:		
General Fund	-	19,499,495
Special revenue funds	2,842,097	2,842,097
Capital projects funds	-	2,999,555
Total Fund Balances	5,209,486	34,399,134
Total Liabilities and Fund Balances	\$ 5,929,742	\$ 39,727,929

CITY OF MANHATTAN BEACH

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund balances of governmental funds	\$ 34,399,134
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity	114,228,887
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(31,913,286)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	656,859
Prepaid pension benefit obligation is not reported in the governmental funds; however, it is reported in the government-wide statements.	7,359,002
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets	<u>5,817,690</u>
Net assets of governmental activities	<u><u>\$ 130,548,286</u></u>

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects Funds	
		Capital Improvement	Underground Assessment District
Revenues:			
Taxes and assessments	\$ 33,110,649	\$ 542,000	\$ 148,556
Licenses and permits	1,639,680	47,242	-
Intergovernmental	775,941	181,226	-
Contribution from property owners	-	-	8,498,306
Charges for services	7,248,992	556,178	-
Use of money and property	3,655,102	53,386	55,112
Fines and forfeitures	2,025,694	127,384	-
Miscellaneous	384,166	100,000	-
Total Revenues	48,840,224	1,607,416	8,701,974
Expenditures:			
Current:			
General government	8,250,060	396,762	-
Public safety	33,321,686	815,106	-
Culture and recreation	5,257,199	355,290	-
Public works	5,899,805	2,162,867	11,168,303
Total Expenditures	52,728,750	3,730,025	11,168,303
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,888,526)	(2,122,609)	(2,466,329)
Other Financing Sources (Uses):			
Transfers in	208,564	3,901,268	-
Transfers out	(3,922,885)	-	(132,564)
Other debts issued	6,800,000	-	-
Contribution to Agency	-	-	(2,701)
Total Other Financing Sources (Uses)	3,085,679	3,901,268	(135,265)
Net Change in Fund Balances	(802,847)	1,778,659	(2,601,594)
Fund Balances, Beginning of Year, as originally reported	21,579,053	5,774,085	3,259,485
Restatements	202,807	-	-
Fund Balances, Beginning of Year, as restated	21,781,860	5,774,085	3,259,485
Fund Balances, End of Year	\$ 20,979,013	\$ 7,552,744	\$ 657,891

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Taxes and assessments	\$ 1,460,041	\$ 35,261,246
Licenses and permits	-	1,686,922
Intergovernmental	2,050,597	3,007,764
Contribution from property owners	-	8,498,306
Charges for services	6,940	7,812,110
Use of money and property	435,043	4,198,643
Fines and forfeitures	-	2,153,078
Miscellaneous	69,075	553,241
Total Revenues	4,021,696	63,171,310
Expenditures:		
Current:		
General government	-	8,646,822
Public safety	214,589	34,351,381
Culture and recreation	573,740	6,186,229
Public works	5,916,363	25,147,338
Total Expenditures	6,704,692	74,331,770
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,682,996)	(11,160,460)
Other Financing Sources (Uses):		
Transfers in	69,270	4,179,102
Transfers out	(1,441,557)	(5,497,006)
Other debts issued	-	6,800,000
Contribution to Agency	-	(2,701)
Total Other Financing Sources (Uses)	(1,372,287)	5,479,395
Net Change in Fund Balances	(4,055,283)	(5,681,065)
Fund Balances, Beginning of Year, as originally reported	9,264,769	39,877,392
Restatements	-	202,807
Fund Balances, Beginning of Year, as restated	9,264,769	40,080,199
Fund Balances, End of Year	\$ 5,209,486	\$ 34,399,134

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ (5,681,065)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	7,195,958
Depreciation expense	(2,047,869)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	515,000
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Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets.	(6,800,000)
--	-------------

Bond Issuance costs is an expenditure in the governmental funds, but the deferred charges in the statement of net assets:	
Debt issuance costs on bonds issued	162,600
Amortization for current fiscal year	(12,691)

Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:	
Amortization for current fiscal year	7,023

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(225,392)
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The change in the prepaid pension obligation is reported only at the government-wide level.	6,680,043
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Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	47,886
--	--------

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities	<u>1,510,600</u>
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Change in net assets of governmental activities	<u>\$ 1,352,093</u>
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CITY OF MANHATTAN BEACH

**BUDGETARY COMPARISON STATEMENT
 GENERAL FUND
 YEAR ENDED JUNE 30, 2007**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, as restated	\$ 21,781,860	\$ 21,781,860	\$ 21,781,860	\$ -
Resources (Inflows):				
Taxes and assessments	28,657,000	31,177,000	33,110,649	1,933,649
Licenses and permits	1,517,400	1,517,400	1,639,680	122,280
Intergovernmental	2,934,010	481,018	775,941	294,923
Charges for services	6,775,700	6,896,700	7,248,992	352,292
Use of money and property	3,012,400	3,012,400	3,655,102	642,702
Fines and forfeitures	2,332,300	2,332,300	2,025,694	(306,606)
Miscellaneous	318,000	318,000	384,166	66,166
Other debts issued	-	6,800,000	6,800,000	-
Transfers from other funds	100,000	208,564	208,564	-
Amounts Available for Appropriation	67,428,670	74,525,242	77,630,648	3,105,406
Charges to Appropriation (Outflow):				
General government	8,845,977	8,982,737	8,250,060	732,677
Public safety	26,344,837	33,568,875	33,321,686	247,189
Culture and recreation	5,020,542	5,162,281	5,257,199	(94,918)
Public works	5,323,163	5,607,646	5,899,805	(292,159)
Transfers to other funds	3,803,615	3,922,885	3,922,885	-
Total Charges to Appropriations	49,338,134	57,244,424	56,651,635	592,789
Budgetary Fund Balance, June 30	\$ 18,090,536	\$ 17,280,818	\$ 20,979,013	\$ 3,698,195

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Parking
Assets:			
Current:			
Cash and investments	\$ 8,150,967	\$1,308,041	\$ 1,345,039
Receivables:			
Accounts	394,286	81,632	137,495
Due from other governments	156,502	-	-
Prepaid costs	-	521	-
Inventories	66,452	-	-
Total Current Assets	8,768,207	1,390,194	1,482,534
Noncurrent:			
Restricted assets:			
Cash and investments	227,210	111,550	1,162,310
Unamortized debt issuance costs	70,219	34,542	229,891
Capital assets - net of accumulated depreciation	12,530,809	5,541,968	17,505,024
Total Noncurrent Assets	12,828,238	5,688,060	18,897,225
Total Assets	\$21,596,445	\$7,078,254	\$20,379,759
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 571,768	\$ 19,470	\$ 233,534
Accrued leave payable	9,724	-	-
Interest payable	48,681	23,955	290,804
Workers' compensation claims	-	-	-
General liability claims	-	-	-
Deposits payable	835	-	34,460
Lease payable - current portion	-	-	-
Current portion of bonds payable	70,384	34,616	270,000
Total Current Liabilities	701,392	78,041	828,798
Noncurrent:			
Accrued leave long-term	71,855	-	-
Workers' compensation claims	-	-	-
General liability claims	-	-	-
Lease payable	-	-	-
Bonds, notes and loans payable	2,489,966	1,225,034	12,300,000
Total Noncurrent Liabilities	2,561,821	1,225,034	12,300,000
Total Liabilities	3,263,213	1,303,075	13,128,798
Net Assets:			
Invested in capital assets, net of related debt	9,970,459	4,282,318	4,935,024
Restricted for debt service	227,210	111,549	871,506
Restricted for business improvement district	-	-	536,856
Unrestricted	8,135,563	1,381,312	907,575
Total Net Assets	18,333,232	5,775,179	7,250,961
Total Liabilities and Net Assets	\$21,596,445	\$7,078,254	\$20,379,759

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2007

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
Assets:			
Current:			
Cash and investments	\$ 4,031,342	\$14,835,389	\$ 9,210,358
Receivables:			
Accounts	327,433	940,846	8,187
Due from other governments	-	156,502	-
Prepaid costs	-	521	-
Inventories	-	66,452	126,545
Total Current Assets	4,358,775	15,999,710	9,345,090
Noncurrent:			
Restricted assets:			
Cash and investments	-	1,501,070	-
Unamortized debt issuance costs	-	334,652	-
Capital assets - net of accumulated depreciation	4,259,891	39,837,692	3,123,710
Total Noncurrent Assets	4,259,891	41,673,414	3,123,710
Total Assets	\$ 8,618,666	\$57,673,124	\$ 12,468,800
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 457,737	\$ 1,282,509	\$ 129,850
Accrued leave payable	-	9,724	-
Interest payable	-	363,440	-
Workers' compensation claims	-	-	3,106,276
General liability claims	-	-	858,796
Deposits payable	15,157	50,452	-
Lease payable - current portion	-	-	168,182
Current portion of bonds payable	-	375,000	-
Total Current Liabilities	472,894	2,081,125	4,263,104
Noncurrent:			
Accrued leave long-term	-	71,855	-
Workers' compensation claims	-	-	1,718,382
General liability claims	-	-	279,615
Lease payable	-	-	390,009
Bonds, notes and loans payable	-	16,015,000	-
Total Noncurrent Liabilities	-	16,086,855	2,388,006
Total Liabilities	472,894	18,167,980	6,651,110
Net Assets:			
Invested in capital assets, net of related debt	4,259,891	23,447,692	2,565,519
Restricted for debt service	-	1,210,265	-
Restricted for business improvement district	-	536,856	-
Unrestricted	3,885,881	14,310,331	3,252,171
Total Net Assets	8,145,772	39,505,144	5,817,690
Total Liabilities and Net Assets	\$ 8,618,666	\$57,673,124	\$ 12,468,800

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Parking
Operating Revenues:			
Sales and service charges	\$ 7,202,270	\$ 1,333,639	\$ 1,240,370
Miscellaneous	24,738	-	171,036
Total Operating Revenues	7,227,008	1,333,639	1,411,406
Operating Expenses:			
Salaries and wages	692,107	151,949	55,688
Employee benefits	273,615	43,021	19,489
Contract and professional services	3,831,685	68,965	205,036
Materials and services	582,485	128,899	224,772
Utilities	201,904	21,741	92,317
Administrative service charges	1,233,360	634,620	95,905
Leases and rents	-	-	-
Claims expense	-	-	-
Depreciation	331,814	142,508	124,914
Total Operating Expenses	7,146,970	1,191,703	818,121
Operating Income (Loss)	80,038	141,936	593,285
Nonoperating Revenues (Expenses):			
Intergovernmental	-	-	-
Interest revenue	512,940	84,521	126,938
Interest expense	(156,577)	(77,034)	(598,559)
Total Nonoperating Revenues (Expenses)	356,363	7,487	(471,621)
Income (Loss) Before Transfers	436,401	149,423	121,664
Transfers in	-	-	50,000
Transfers out	-	-	-
Changes in Net Assets	436,401	149,423	171,664
Beginning of Fiscal Year	17,896,831	5,625,756	7,079,297
End of Fiscal Year	\$ 18,333,232	\$ 5,775,179	\$ 7,250,961

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Other Enterprise Funds	Totals	
Operating Revenues:			
Sales and service charges	\$ 4,893,039	\$ 14,669,318	\$ 7,023,375
Miscellaneous	18,120	213,894	349,993
Total Operating Revenues	4,911,159	14,883,212	7,373,368
Operating Expenses:			
Salaries and wages	83,363	983,107	879,134
Employee benefits	29,280	365,405	390,541
Contract and professional services	3,641,338	7,747,024	751,897
Materials and services	185,443	1,121,599	1,330,298
Utilities	48,260	364,222	143,802
Administrative service charges	394,318	2,358,203	148,179
Leases and rents	207,665	207,665	6,000
Claims expense	-	-	2,961,602
Depreciation	147,916	747,152	572,973
Total Operating Expenses	4,737,583	13,894,377	7,184,426
Operating Income (Loss)	173,576	988,835	188,942
Nonoperating Revenues (Expenses):			
Intergovernmental	10,861	10,861	-
Interest revenue	216,920	941,319	-
Interest expense	-	(832,170)	(22,246)
Total Nonoperating Revenues (Expenses)	227,781	120,010	(22,246)
Income (Loss) Before Transfers	401,357	1,108,845	166,696
Transfers in	-	50,000	1,343,904
Transfers out	(76,000)	(76,000)	-
Changes in Net Assets	325,357	1,082,845	1,510,600
Beginning of Fiscal Year	7,820,415	38,422,299	4,307,090
End of Fiscal Year	\$ 8,145,772	\$ 39,505,144	\$ 5,817,690

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CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Parking
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 7,178,484	\$ 1,326,361	\$ 1,836,634
Cash received from/(paid to) interfund service provided			
Cash paid to suppliers for goods and services	(4,184,391)	(162,592)	(480,875)
Cash paid to employees for services	(807,913)	(168,923)	(70,110)
Cash paid for interfund services used	(1,682,958)	(762,737)	(675,905)
Net Cash Provided (Used) by Operating Activities	503,222	232,109	609,744
Cash Flows from Non-Capital Financing Activities:			
Grant revenue	-	-	-
Cash transfers out	-	-	-
Cash transfers in	-	-	50,000
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-	50,000
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(1,671,646)	(202,544)	(223,707)
Acquisition and construction of capital assets			
Principal paid on capital debt	(67,025)	(32,975)	(265,000)
Interest paid on capital debt	(147,853)	(72,742)	(587,572)
Bond administration fee	(5,303)	(2,609)	(2,825)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,891,827)	(310,870)	(1,079,104)
Cash Flows from Investing Activities:			
Interest received	512,940	84,521	126,938
Net Cash Provided (Used) by Investing Activities	512,940	84,521	126,938
Net Increase (Decrease) in Cash and Cash Equivalents	(875,665)	5,760	(292,422)
Cash and Cash Equivalents at Beginning of Year	9,253,842	1,413,831	2,799,771
Cash and Cash Equivalents at End of Year	\$ 8,378,177	\$ 1,419,591	\$ 2,507,349

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Parking
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 80,038	\$ 141,936	\$ 593,285
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	331,814	142,508	124,914
(Increase) decrease in accounts receivable	(47,268)	(8,379)	(136,505)
(Increase) decrease in due from other governments	(9,911)	-	-
(Increase) decrease in inventory	(2,464)	-	-
(Increase) decrease in prepaid expense	-	(521)	-
Increase (decrease) in accounts payable	127,317	(43,435)	7,010
Increase (decrease) in accrued liabilities	26,184	-	-
Increase (decrease) in deposits payable	(2,488)	-	21,040
Increase (decrease) in claims and judgments	-	-	-
Total Adjustments	423,184	90,173	16,459
Net Cash Provided (Used) by Operating Activities	\$ 503,222	\$ 232,109	\$ 609,744

Non-Cash Investing, Capital, and Financing Activities:

During fiscal year 2006-2007, there was no noncash investing, capital and financing activities.

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

(Continued)

	Business-Type Activities Enterprise Funds		Governmental Activities
	Other Enterprise Funds	Totals	Internal Service Funds
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 4,898,949	\$ 15,240,428	\$ 180,590
Cash received from/(paid to) interfund service provided	-	-	6,974,564
Cash paid to suppliers for goods and services	(3,970,626)	(8,798,484)	(4,450,907)
Cash paid to employees for services	(108,637)	(1,155,583)	(1,088,521)
Cash paid for interfund services used	(558,515)	(3,680,115)	(340,371)
Net Cash Provided (Used) by Operating Activities	261,171	1,606,246	1,275,355
Cash Flows from Non-Capital Financing Activities:			
Grant revenue	10,861	10,861	-
Cash transfers out	(76,000)	(76,000)	-
Cash transfers in	-	50,000	1,343,904
Net Cash Provided (Used) by Non-Capital Financing Activities	(65,139)	(15,139)	1,343,904
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(59,916)	(2,157,813)	-
Acquisition and construction of capital assets	-	-	(735,448)
Principal paid on capital debt	-	(365,000)	(162,503)
Interest paid on capital debt	-	(808,167)	(22,246)
Bond administration fee	-	(10,737)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(59,916)	(3,341,717)	(920,197)
Cash Flows from Investing Activities:			
Interest received	216,920	941,319	-
Net Cash Provided (Used) by Investing Activities	216,920	941,319	-
Net Increase (Decrease) in Cash and Cash Equivalents	353,036	(809,291)	1,699,062
Cash and Cash Equivalents at Beginning of Year	3,678,306	17,145,750	7,511,296
Cash and Cash Equivalents at End of Year	\$ 4,031,342	\$ 16,336,459	\$ 9,210,358

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

(Continued)

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Other Enterprise Funds	Totals	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 173,576	\$ 988,835	\$ 188,942
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	147,916	747,152	572,973
(Increase) decrease in accounts receivable	(7,160)	(199,312)	(8,187)
(Increase) decrease in due from other governments	-	(9,911)	-
(Increase) decrease in inventory	-	(2,464)	(12,206)
(Increase) decrease in prepaid expense	-	(521)	-
Increase (decrease) in accounts payable	27,069	117,961	12,537
Increase (decrease) in accrued liabilities	-	26,184	-
Increase (decrease) in deposits payable	(80,230)	(61,678)	-
Increase (decrease) in claims and judgments	-	-	521,296
Total Adjustments	87,595	617,411	1,086,413
Net Cash Provided (Used) by Operating Activities	\$ 261,171	\$ 1,606,246	\$ 1,275,355

Non-Cash Investing, Capital, and Financing Activities:

During fiscal year 2006-2007, there was no noncash investing, capital and financing activities.

CITY OF MANHATTAN BEACH

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Funds</u>	<u>Pension Trust Fund</u>
Assets:		
Cash and cash equivalents	\$ 1,175,024	\$ 1,722,057
Receivables:		
Accounts	26,127	-
Restricted assets:		
Cash with fiscal agent	<u>2,673,910</u>	<u>-</u>
Total Assets	<u>\$ 3,875,061</u>	<u>\$ 1,722,057</u>
Liabilities:		
Accounts payable	\$ 22,500	\$ -
Deposits	1,945,810	-
Due to bondholders	<u>1,906,751</u>	<u>-</u>
Total Liabilities	<u>\$ 3,875,061</u>	<u>-</u>
Net Assets:		
Held in trust for pension benefits and other purposes		<u>\$ 1,722,057</u>



Notes to Financial Statements

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Inventories - Inventories of materials and supplies are carried at cost on a weighted-average basis. The City uses the consumption method of accounting for inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

h. Interfund Transfers

As a general rule, interfund transactions have been eliminated from the government-wide financial statements. Exceptions to this rule are payments in lieu or charges for current service between the City's enterprise activity and the City's General Fund. Elimination of these transactions would distort the direct costs and program revenues for the various functions. Certain eliminations have been made regarding interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental, business-type, and Trust & Agency activities have not been eliminated.

i. Long-Term Obligations

In the government-wide and proprietary funds financial statements, long-term obligations are recorded as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt for all issues using the bonds outstanding method.

In the governmental fund financial statements, bond discounts and premiums are recognized as other financing sources or uses. Issuance costs are recorded as a current year expenditure.

The City has recorded all judgment and claim liabilities resulting from workers' compensation and liability insurance claims in the Insurance Reserve Fund, which is a component of the Internal Service Funds Group.

The recorded liability is based upon an estimate of reported claims as provided by an analysis of a third party administrator. Reported short-term and long-term estimated losses and reserves of \$3,965,072 and \$1,997,997, respectively, are recorded in the Insurance Reserve Fund.

Only the short-term liability is reflected as a current liability in all applicable governmental fund types; the remainder of the liability is reported long-term debt in the Statement of Net Assets.

j. Vacation and Sick Leave

The City's policy is to record the cost of vested vacation and sick leave as it is earned. Vacation is payable to employees at the time a vacation is taken or upon termination of employment. Employees do not receive payment for unused sick leave upon termination except for sworn fire safety personnel who may either cash out at a rate of 50% or convert 75% of the value of their unused sick time to service credit upon a service retirement.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Miscellaneous and sworn police employees may accrue compensated time off in lieu of payment for overtime hours. Overtime hours are banked at either time-and-a-half or straight-time hours depending upon the nature of the overtime worked. The dollar value of these hours is included as an employee benefits liability as shown in the balance sheet.

k. Supplemental Leave Allowance

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2007, the total accrued liability for this benefit amounted to \$35,595, based on accumulated hours for months in service during the time period from January 1, 1990 to December 4, 1994, as specified in the parameters of the plan. Upon termination, the employee will be paid for any unused leave and as such the total amount of the liability is accrued as a long-term item (see Note 5).

This balance decreased from prior year levels reflecting cash payouts to benefiting employees to be used in funding a newly established and optional employee funded retirement health savings plan.

l. Allocation of Interest Income Among Funds

The City pools all non-restricted cash for investment purchases and allocates interest income based on month-end cash balances. Interest earned by restricted Cash is posted to their respective accounts.

m. Cash Flow Statements

For purposes of the Statement of Cash Flows, the proprietary fund types consider all cash and investments to be cash equivalents, as these funds participate in the citywide cash and investment pool.

n. Estimates

The accompanying financial statements require management to make estimates and assumptions that effect certain report amounts and disclosures. Actual results could differ from those estimates.

o. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 2: Budgets and Budgetary Accounting

a. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 2: Budgets and Budgetary Accounting (Continued)

b. Excess Expenditures

For the year ended June 30, 2007, the following funds had expenditures in excess of budget:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund:			
Culture and Recreation	5,257,199	5,162,281	94,918
Public Works	5,899,805	5,607,646	292,159

Note 3: Cash and Investments

As of June 30, 2007, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 44,503,722
Business-type activities	16,336,459
Fiduciary funds	<u>5,570,991</u>
Total Cash and Investments	<u>\$ 66,411,172</u>

The City of Manhattan Beach maintains a cash and investment pool that is available for use for all funds, including fiduciary funds. Each fund type's position in the pool is reported on the Combined Balance Sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

The City implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, in the prior year. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

a. Deposits

At June 30, 2007, the carrying amount of the City's deposits was \$2,425,810 and the bank balance was \$3,767,074. The \$1,341,264 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The City's Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Cash and Investments (Continued)

Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

b. Authorized Investments

Under provisions of the City's Investment Policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan associations
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Demand Deposits
- Passbook Savings Account Demand Deposits
- Federally Insured Thrift and Loan
- Los Angeles County Pool
- Repurchase Agreements
- Medium-Term Corporate Notes
- Insured Municipal Bonds
- Floaters or step-ups with market driven interest rate adjustments
- Mutual Funds of highest ratings

Throughout the year, the City utilized overnight repurchase agreements for temporary investment of idle cash. Such agreements were used periodically and generally did not exceed 5% of the City's investment portfolio.

The City's investment policy does not allow the use of reverse-repurchase agreements and, accordingly, the City did not borrow through the use of reverse-repurchase agreements at any time during the year.

c. Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Entity's investment policy.

d. Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holdings in LAIF. The City had a contractual withdrawal value of \$11,846,000 whose pro-rata share of fair value was estimated by the State Treasurer to be \$11,840,610.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 3: Cash and Investments (Continued)

e. Investment in State Treasury's Investment Pool and 401(a) Plan

Investment in State Treasury's Investment Pool and 401(a) plan cannot be assigned a credit risk category because the City does not own specific securities. However, the funds' investment policies and practices with regard to the credit and market risks have been determined acceptable to the City's investment policies.

f. Cash and Investments - 401 (a) Plan

The City contributes to a 401(a) plan for its management confidential employees into which these employees can make voluntary contributions. The fair value of the plan assets at June 30, 2007, was \$1,575,869.

g. GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Entity reports its investments at fair value in the balance sheet.

All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Methods and assumptions used to estimate fair value - The City maintains investment accounting records and adjusts those records to "fair value" on an annual basis for material amounts. The City's investment custodian provides market values on each investment instrument on a monthly basis for material amounts. The investments held by the City are widely traded in the financial markets and trading values are readily available from numerous published sources. Material unrealized gains and losses are recorded on an annual basis and the carrying value of its investments is considered fair value. For the year ended June 30, 2007, the book value of investments exceeded market by \$5,311.

h. Credit Risk

The City's investment policy limits investments in medium-term notes (MTN's) to those rated in the top three rating categories by two of the three largest nationally recognized rating services at time of purchase. As of June 30, 2007, the City's investment in medium-term notes consisted of investments with Bank of America, Berkshire Hathaway, Citicorp, Fleet Financial Group, General Electric Capital, Gillette Company, Morgan Stanley Corp and Wachovia Bank. At June 30, 2007, all MTN's were rated "A" or higher by Moody's. All securities were investment grade and were legal under state and city policies. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2007, the City's investments in external investment pools and money market mutual funds are unrated.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Cash and Investments (Continued)

i. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2007, none of the City's deposits or investments was exposed to custodial credit risk.

j. Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer for the following types of investments. With respect to concentration of credit risk, as of June 30, 2007, the City is in compliance with its investment policy's restrictions.

In accordance with GASB Statement No. 40, if the city has invested more than 5% of its total investments in any one issuer then it is exposed to credit risk. With respect to concentration risk, as of June 30, 2007, the City has not invested more than 5% of its total investments in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

k. Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that no investment can mature more than five years from the date of purchase in line with state code requirements. The only exception to these maturity limits shall be the investment of the gross proceeds of tax-exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Cash and Investments (Continued)

As of June 30, 2007, the City had the following investments and original maturities:

	Remaining Investment Maturities				Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	More than 3 years	
Pooled Investments:					
Local Government Fund	\$ 11,840,610	\$ -	\$ -	\$ -	\$ 11,840,610
US Treasury and agency notes	8,215,163	6,969,310	18,867,910	980,710	35,033,093
Medium-term notes	2,001,130	1,476,895	8,304,195	-	11,782,220
	<u>\$ 22,056,903</u>	<u>\$ 8,446,205</u>	<u>\$ 27,172,105</u>	<u>\$ 980,710</u>	<u>\$ 58,655,923</u>
Investment with Fiscal Agents:					
Police & Fire Construction					\$ 1,101,931
Utility Undergrounding					1,660,310
Metlox certificates of participation					1,162,310
Marine certificates of participation					59,018
Police & Fire pension bonds					805,777
Water/wastewater revenue bonds					338,760
SBRPCA revenue bonds					201,333
					<u>5,329,439</u>
Demand deposits					766,583
Other deposits					10,831
Petty cash					1,302
					<u>778,716</u>
Other Funds and Deposits:					
401(a) employee plan					1,575,869
Medical Flex Plan					71,225
					<u>1,647,094</u>
Grand Total					<u>\$ 66,411,172</u>

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 4: Interfund Transactions

Interfund Transfers

With City Council approval, resources may be transferred from one fund to another. Transfers between individual funds during the fiscal year ended June 30, 2007, are presented below:

	Transfers To:					Total
	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Parking Fund	Internal Service Funds	
Transfers From:						
Major Governmental Funds:						
General Fund	\$ -	\$ 2,459,711	\$ 69,270	\$ 50,000	\$ 1,343,904	\$ 3,922,885
Underground Assessment District	132,564	-	-	-	-	132,564
Nonmajor Governmental Funds	-	1,441,557	-	-	-	1,441,557
Nonmajor Proprietary Funds	76,000	-	-	-	-	76,000
Total	<u>\$ 208,564</u>	<u>\$ 3,901,268</u>	<u>\$ 69,270</u>	<u>\$ 50,000</u>	<u>\$ 1,343,904</u>	<u>\$ 5,573,006</u>

The interfund transfers scheduled above resulted from a variety of City initiatives including the following:

- The Underground Assessment District fund transferred \$132,564 to the General Fund for UAD development costs.
- The County Parking Lot fund transferred \$76,000 to the General fund for recreation purposes.
- The General Fund transferred \$2,459,711 into the Capital Improvement Fund for future projects.
- The Safety Construction fund transferred the \$1,441,557 residual balance to the Capital Improvement fund.
- The General fund transferred \$69,270 to the Street Lighting fund to relieve a deficit fund balance.
- The General fund transferred \$50,000 to the Parking fund to maintain working capital levels.
- The General fund transferred \$1,343,904 to the Insurance Reserve fund to alleviate ongoing deficits.

Due To/From Other Funds

	Federal and State Grants Fund	Total
Due From Other Funds:		
General Fund	<u>\$ 20,000</u>	<u>\$ 20,000</u>

The amount due to the General Fund represents an effort to eliminate a deficit fund balance in the Federal and State Grants fund for grant money they have not yet received.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 5: Capital Assets and Depreciation

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2007:

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:							
Capital assets, not being depreciated:							
Land	\$ 33,634,566	\$ -	\$ 33,634,566	\$ -	\$ -	\$ -	\$ 33,634,566
Investment in joint venture	-	1,855,268	1,855,268	-	-	-	1,855,268
Construction-in-progress	40,189,421	-	40,189,421	6,606,827	-	(38,932,261)	7,863,987
Total Capital Assets, Not Being Depreciated	73,823,987	1,855,268	75,679,255	6,606,827	-	(38,932,261)	43,353,821
Capital assets, being depreciated:							
Buildings and structures	4,811,732	-	4,811,732	-	-	38,404,048	43,215,780
Machinery and equipment	5,087,192	-	5,087,192	749,628	(160,498)	-	5,676,322
Vehicles	6,067,674	-	6,067,674	735,448	(297,356)	-	6,505,766
Streets and roadways	37,424,340	-	37,424,340	-	-	528,213	37,952,553
Parks and recreation	10,885,500	-	10,885,500	-	-	-	10,885,500
Total Capital Assets, Being Depreciated	64,276,438	-	64,276,438	1,485,076	(457,854)	38,932,261	104,235,921
Less accumulated depreciation:							
Buildings and structures	(2,141,733)	-	(2,141,733)	(478,079)	-	-	(2,619,812)
Machinery and equipment	(2,822,168)	-	(2,822,168)	(409,225)	122,347	-	(3,109,046)
Vehicles	(3,106,438)	-	(3,106,438)	(554,933)	279,316	-	(3,382,055)
Streets and roadways	(16,510,969)	-	(16,510,969)	(1,092,641)	-	-	(17,603,610)
Parks and recreation	(3,332,351)	-	(3,332,351)	(190,271)	-	-	(3,522,622)
Total Accumulated Depreciation	(27,913,659)	-	(27,913,659)	(2,725,149)	401,663	-	(30,237,145)
Total Capital Assets, Being Depreciated, Net	36,362,779	-	36,362,779	(1,240,073)	(56,191)	38,932,261	73,998,776
Governmental Activities Capital Assets, Net	\$ 110,186,766	\$ 1,855,268	\$ 112,042,034	\$ 5,366,754	\$ (56,191)	\$ -	\$ 117,352,597

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 5: Capital Assets and Depreciation (Continued)

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:							
Capital assets, not being depreciated:							
Land - water	\$ 307,967	\$ -	\$ 307,967	\$ -	\$ -	\$ -	\$ 307,967
Land - storm water	7,650	-	7,650	-	-	-	7,650
Land - parking	1,441,817	-	1,441,817	-	-	-	1,441,817
Construction-in-progress	15,359,026	-	15,359,026	2,157,812	-	(15,952,941)	1,563,897
Total Capital Assets, Not Being Depreciated	17,116,460	-	17,116,460	2,157,812	-	(15,952,941)	3,321,331
Capital assets, being depreciated:							
Buildings and structures - parking	1,881,778	-	1,881,778	-	-	14,576,108	16,457,886
Machinery and equipment - parking	738,586	-	738,586	-	-	-	738,586
Water	18,526,657	(76,980)	18,449,677	-	-	1,316,833	19,766,510
Storm water	6,669,596	-	6,669,596	-	-	60,000	6,729,596
Wastewater	9,573,127	-	9,573,127	-	-	-	9,573,127
Total Capital Assets, Being Depreciated	37,389,744	(76,980)	37,312,764	-	-	15,952,941	53,265,705
Less Accumulated Depreciation:							
Buildings and structures - parking	(605,190)	-	(605,190)	(102,459)	-	-	(707,649)
Machinery and equipment - parking	(480,140)	76,980	(403,160)	(22,455)	-	-	(425,615)
Water	(7,926,755)	-	(7,926,755)	(331,814)	-	-	(8,258,569)
Storm water	(2,473,283)	-	(2,473,283)	(147,916)	-	-	(2,621,199)
Wastewater	(4,593,804)	-	(4,593,804)	(142,508)	-	-	(4,736,312)
Total Accumulated Depreciation	(16,079,172)	76,980	(16,002,192)	(747,152)	-	-	(16,749,344)
Total Capital Assets, Being Depreciated, Net	21,310,572	-	21,310,572	(747,152)	-	15,952,941	36,516,361
Business-Type Activities Capital Assets, Net	\$ 38,427,032	\$ -	\$ 38,427,032	\$ 1,410,660	\$ -	\$ -	\$ 39,837,692

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General government	\$ 226,014
Public safety	925,420
Public works	1,335,132
Culture and recreation	238,583
Total Depreciation Expense - Governmental Activities	\$ 2,725,149
Business-Type Activities:	
Water	\$ 331,814
Storm water	147,916
Wastewater	142,508
Parking	124,914
Total Depreciation Expense - Business-Type Activities	\$ 747,152

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 6: Long-Term Liabilities

The following is a summary of changes in long-term liability for the year ended June 30, 2007:

	Balance July 1, 2006	Adjustments	Adjusted Balance July 1, 2006	Additions	Deletions	June 30, 2007	One Year
Governmental Activities:							
Long-term debt:							
Capital lease	\$ 720,693	\$ -	\$ 720,693	\$ -	\$ (162,503)	\$ 558,190	\$ 168,182
Marine Avenue certificate of participation	8,780,000	-	8,780,000	-	(200,000)	8,580,000	205,000
Police Fire COPs	12,980,000	-	12,980,000	-	(240,000)	12,740,000	245,000
2001 South Bay Revenue Bonds	-	1,905,000	1,905,000	-	(75,000)	1,830,000	80,000
Pension Obligation Bonds	-	-	-	6,800,000	-	6,800,000	705,000
Other long-term liabilities:							
Supplemental leave allowance	41,536	-	41,536	-	(5,941)	35,595	-
Compensated absences	1,995,444	-	1,995,444	484,189	(252,858)	2,226,775	252,858
Workers' compensation claims	4,832,702	-	4,832,702	2,293,421	(2,301,465)	4,824,658	3,106,276
General liability claims	609,072	-	609,072	967,950	(438,611)	1,138,411	858,796
Governmental Activity Long-Term Liabilities	\$ 29,959,447	\$ 1,905,000	\$ 31,864,447	\$ 10,545,560	\$ (3,676,378)	38,733,629	\$5,621,112
					Unamortized premium	168,972	
						<u>\$38,902,601</u>	
Business-Type Activities:							
Long-term debt:							
Water Fund certificate of participation	\$ 2,627,375	\$ -	\$ 2,627,375	\$ -	(67,025)	\$ 2,560,350	\$ 70,376
Wastewater Fund certificate of participation	1,292,625	-	1,292,625	-	(32,975)	1,259,650	34,624
Metlox certificate of participation	12,835,000	-	12,835,000	-	(265,000)	12,570,000	270,000
Other long-term liabilities:							
Compensated absences	55,395	-	55,395	81,579	(55,395)	81,579	9,724
Business-Type Activity Long-Term Liabilities	\$ 16,810,395	\$ -	\$ 16,810,395	\$ 81,579	\$ (420,395)	\$16,471,579	\$ 384,724

a. Capital Lease: Fire & Sewer Vacuum Truck

During the 2005-2006 fiscal year, the City entered into two capital leases to procure a new Fire Truck and Sewer Vacuum Truck. Both leases are for a five year term and carry a rate of 3.5%. The Fire Truck was capitalized at a value of \$563,815 and services the City's safety function. The Sewer Vacuum Truck was valued at \$286,666 and services the City's Wastewater enterprise operation. Both vehicles were authorized for purchase in the FY 2005-2006 budget.

Annual debt service requirements to maturity for both capital leases are as follows:

Fiscal Year Ending June 30,	Fire Truck			Sewer Truck		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 111,568	\$ 10,872	\$ 122,440	\$ 56,614	\$ 5,695	\$ 62,309
2009	115,467	6,973	122,440	58,592	3,716	62,308
2010	119,502	2,937	122,439	60,640	1,669	62,309
2011	20,319	87	20,406	15,488	89	15,577
Total	\$ 366,856	\$ 20,869	\$ 387,725	\$ 191,334	\$ 11,169	\$ 202,503

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 6: Long-Term Liabilities (Continued)

b. Marine Avenue Certificates of Participation

The City of Manhattan Beach issued \$9,535,000 of Variable Rate Demand Refunding Certificates of Participation (COP) to refinance the Marine Sports Field Lease. The COP's were issued on April 24, 2002. The interest rate is variable and will be determined by the Remarketing Agent at a rate as follows: the adjustable interest rate will be the interest rate for actual days elapsed which, in the judgment of the Remarketing Agent, having due regard for prevailing financial market conditions, when payable with respect to the Certificates, would equal the interest rate necessary to enable the Remarketing Agent to remarket the tendered Certificates at 100% of the principal amount thereof. The rate used for the repayment schedule is 3.58%, which was the rate estimated at the issuance of the COP's. The COP's mature on August 1, 2032.

Annual debt service requirements to maturity for the Marine Avenue Certificates of Participation are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 205,000	\$ 345,542	\$ 550,542
2009	210,000	335,975	545,975
2010	220,000	327,555	547,555
2011	230,000	318,255	548,255
2012	235,000	309,226	544,226
2012-2017	1,315,000	1,386,952	2,701,952
2017-2022	1,570,000	1,091,117	2,661,117
2022-2027	1,870,000	737,319	2,607,319
2027-2032	2,230,000	316,342	2,546,342
2032-2037	495,000	5,774	500,774
Total	<u>\$ 8,580,000</u>	<u>\$ 5,174,057</u>	<u>\$ 13,754,057</u>

c. Police and Fire Facility Certificates of Participation

The City of Manhattan Beach issued \$12,980,000 of fixed rate Certificates of Participation (COP) to fund the construction of a new integrated Police and Fire safety facility, fund reserve requirements, and pay related issuance costs. The facility is located on the Civic Center campus, includes approximately 350 subterranean parking spaces, and was substantially completed in fiscal year 2005-2006. The COP's were issued on November 4, 2004. The certificates bear interest at 2% to 5% and mature through 2036. The COP's final series mature on January 1, 2036.

Annual debt service requirements to maturity for the Police and Fire Certificates of Participation are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 245,000	\$ 569,700	\$ 814,700
2009	250,000	564,188	814,188
2010	255,000	557,938	812,938
2011	265,000	550,288	815,288
2012	275,000	541,675	816,675
2012-2017	1,525,000	2,552,794	4,077,794
2017-2022	1,850,000	2,227,831	4,077,831
2022-2027	2,280,000	1,792,700	4,072,700
2027-2032	2,905,000	1,172,750	4,077,750
2032-2037	2,890,000	370,000	3,260,000
Total	<u>\$ 12,740,000</u>	<u>\$ 10,899,864</u>	<u>\$ 23,639,864</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 6: Long-Term Liabilities (Continued)

d. 2001 South Bay Regional Public Communications Authority Revenue Bonds

On January 16, 2001, the City issued \$2,180,000 in South Bay Regional Public Communications Public Authority Variable Rate Demand Revenue Bonds, 2001 Series C, for the purpose of financing a portion of the costs of the project for use, in part, by the City, pay capitalized interest on the Series C Bonds through May 1, 2002, fund a reserve account for the Series C Bonds, and pay certain costs of issuance of the Series C Bonds. The bonds mature annually each January 1, 2003 to 2031.

The annual requirements to amortize the 2001 South Bay Regional Public Communications Authority Revenue Bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 80,000	\$ 73,959	\$ 153,959
2009	80,000	70,368	150,368
2010	85,000	67,048	152,048
2011	90,000	63,403	153,403
2012	50,000	60,392	110,392
2012-2017	270,000	269,786	539,786
2017-2022	340,000	208,276	548,276
2022-2027	425,000	130,285	555,285
2027-2032	410,000	36,326	446,326
Total	<u>\$ 1,830,000</u>	<u>\$ 979,843</u>	<u>\$ 2,809,843</u>

e. 2007 Pension Obligation Bonds

On March 14, 2007, the City issued \$6,800,000 in Taxable Pension Obligation Bonds, 2007, for the purpose of liquidating Police and Fire side fund accrued actuarial liabilities due California Public Employee's Retirement System (See Note 9 Mandatory Police and Fire Risk Pooling). The bonds mature annually each June 1, 2008 to 2014, in amounts ranging from \$695,000 to \$1,095,000, bearing interest at 5.011%.

The annual requirements to amortize the 2007 Taxable Pension Obligation Bonds outstanding at June 30, 2007, were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 705,000	\$ 246,416	\$ 951,416
2009	695,000	288,007	983,007
2010	765,000	251,427	1,016,427
2011	840,000	211,214	1,051,214
2012	925,000	166,992	1,091,992
2012-2017	2,870,000	203,447	3,073,447
Totals	<u>\$ 6,800,000</u>	<u>\$ 1,367,503</u>	<u>\$ 8,167,503</u>

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 6: Long-Term Liabilities (Continued)

f. Compensated Absences

At June 30, 2007, the total citywide accrued liability for compensated absences amounted to \$2,308,354 which is comprised of \$2,001,512 and \$306,842 of vested vacation and sick leave, respectively. \$2,226,775 of this compensated leave liability is related to general government services with the remaining \$81,579 related to business type activities.

g. Workers' Compensation Claims

This is an estimation of the workers' compensation claims that have been incurred but not reported. At June 30, 2007, the long-term portion was \$4,824,658.

h. General Liability Claims

This is an estimation of the general liability claims incurred but not reported. At June 30, 2007, the long-term portion was \$1,138,411.

i. Water and Wastewater Certificates of Participation

In September 1996, the Manhattan Beach Capital Improvements Corporation issued \$4,615,000 of debt in the form of Certificates of Participation. This debt was issued to finance 1996 and 1997 enterprise fund projects, related specifically to the water and wastewater systems. The certificates bear interest at 5.3% to 5.8% and mature through 2026. Installment payments to be made by the City will be secured by net revenues received by the subject enterprise funds and do not obligate the City's General Funds.

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2007:

Fiscal Year Ending June 30,	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 70,376	\$ 144,161	\$ 214,537	\$ 34,624	\$ 70,925	\$ 105,549
2009	73,727	140,288	214,015	36,273	69,020	105,293
2010	77,079	136,235	213,314	37,921	67,026	104,947
2011	80,430	131,992	212,422	39,570	64,938	104,508
2012	87,132	127,370	214,502	42,868	62,664	105,532
2012-2017	519,442	555,246	1,074,688	255,558	273,173	528,731
2017-2022	700,410	381,864	1,082,274	344,591	187,871	532,462
2022-2027	951,754	144,807	1,096,561	468,245	71,243	539,488
2027-2032	-	-	-	-	-	-
Total	<u>\$ 2,560,350</u>	<u>\$ 1,761,963</u>	<u>\$ 4,322,313</u>	<u>\$ 1,259,650</u>	<u>\$ 866,860</u>	<u>\$ 2,126,510</u>

j. Metlox Certificate of Participation

In January 2003, the City of Manhattan Beach issued \$13,350,000 of fixed rate Certificates of Participation (COP) to finance the construction of a public parking structure at the City owned Metlox site. This site is positioned adjacent to City Hall in the downtown district and the structure's construction was completed in January 2004. Interest rates on the certificates range from 2% to 5% and mature through 2033. These certificates

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 6: Long-Term Liabilities (Continued)

evidence and represent the proportionate interests of the registered owners thereof in lease payments to be made by the City as rent for use of certain real property and improvements thereon. City Hall and adjacent land are encumbered as security for the COP.

Annual debt service requirements to maturity for the Metlox Parking Facility (COP) are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 270,000	\$ 581,609	\$ 851,609
2009	280,000	574,184	854,184
2010	285,000	565,784	850,784
2011	300,000	555,809	855,809
2012	310,000	544,559	854,559
2012-2017	1,755,000	2,525,081	4,280,081
2017-2022	2,185,000	2,106,986	4,291,986
2022-2027	2,785,000	1,530,750	4,315,750
2027-2032	3,570,000	760,500	4,330,500
2032-2037	830,000	41,500	871,500
Total	<u>\$ 12,570,000</u>	<u>\$ 9,786,762</u>	<u>\$ 22,356,762</u>

Note 7: Non-City Obligation

In August 2004, the City issued three separate limited obligation improvement bonds totaling \$3,402,891, under provisions of the Improvement Bond Act of 1915, for Underground Assessment Districts 04-1, 04-3 and 04-5. These bonds were issued for the purpose of financing the construction of certain public improvements within the underground utility assessment districts. The bonds are secured solely by the subject properties and the amounts held in respective reserve and bond funds. The bonds are not secured by the general taxing power of the City of Manhattan Beach and the City has not pledged credit for payment thereof.

In August 2006, the City issued two separate limited obligation improvement bonds totaling \$9,207,823, under provisions of the Improvement Bond Act of 1915, for Underground Assessment Districts 05-2 and 05-6, in the amounts of \$4,525,000 and \$4,628,823, respectively. These bonds were issued for the purpose of financing the construction of certain public improvements within the underground utility assessment districts. The bonds are secured solely by the subject properties and the amounts held in respective reserve and bond funds. The bonds are not secured by the general taxing power of the City of Manhattan Beach and the City has not pledged credit for payment thereof.

Because these bonds are not City obligations, the related liabilities are not reflected in the financial statements.

Note 8: Classification Fund Balance and Enterprise Fund Net Assets

The City's governmental funds reserves and designations at June 30, 2007, are presented below:

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Classification Fund Balance and Enterprise Fund Net Assets (Continued)

	General Fund	Capital Improvement Fund	Underground Assessment District Improvements	Other Governmental Funds	Total Governmental Funds
Total Fund Equity	<u>\$ 20,979,013</u>	<u>\$ 7,552,744</u>	<u>\$ 657,891</u>	<u>\$ 5,209,486</u>	<u>\$ 34,399,134</u>
Reserved:					
Encumbrances	\$ 487,666	\$ -	\$ -	\$ 9,427	\$ 497,093
Prepays	19,430	-	-	-	19,430
Debt Service	972,422	817,081	-	-	1,789,503
Continuing capital projects	-	3,736,108	657,891	2,357,962	6,751,961
Total Reserved	<u>1,479,518</u>	<u>4,553,189</u>	<u>657,891</u>	<u>2,367,389</u>	<u>9,057,987</u>
Unreserved	<u>19,499,495</u>	<u>2,999,555</u>	<u>-</u>	<u>2,842,097</u>	<u>25,341,147</u>
Designated:					
Financial policy	9,100,473	-	-	-	9,100,473
Economic uncertainty	4,000,000	-	-	-	4,000,000
Accrued benefits	2,262,372	-	-	-	2,262,372
Loan Program	-	1,000,312	-	-	1,000,312
Total Designated	<u>15,362,845</u>	<u>1,000,312</u>	<u>-</u>	<u>-</u>	<u>16,363,157</u>
Undesignated	<u>4,136,650</u>	<u>1,999,243</u>	<u>-</u>	<u>2,842,097</u>	<u>8,977,990</u>

The City's Enterprise Fund restrictions and City Council designations at June 30, 2007, are presented below:

	Water Fund	Waste Water Fund	Parking Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
Total Net Assets	<u>\$ 18,333,232</u>	<u>\$ 5,775,179</u>	<u>\$ 7,250,961</u>	<u>\$ 8,145,772</u>	<u>\$ 39,505,144</u>
Restricted:					
Debt service	\$ 227,210	\$ 111,549	\$ 871,506	\$ -	\$ 1,210,265
BID	-	-	536,856	-	536,856
Total Restricted	<u>227,210</u>	<u>111,549</u>	<u>1,408,362</u>	<u>-</u>	<u>1,747,121</u>
Investment in Net Capital Assets	<u>9,970,459</u>	<u>4,282,318</u>	<u>4,935,024</u>	<u>4,259,891</u>	<u>23,447,692</u>
Unrestricted	<u>8,135,563</u>	<u>1,381,312</u>	<u>907,575</u>	<u>3,885,881</u>	<u>14,310,331</u>
Designations:					
Continuing CIPs	2,156,797	871,241	-	424,093	3,452,131
Financial policy	2,363,000	414,000	218,000	-	2,995,000
Total Designated	<u>4,519,797</u>	<u>1,285,241</u>	<u>218,000</u>	<u>424,093</u>	<u>6,447,131</u>
After Designations	<u>3,615,766</u>	<u>96,071</u>	<u>689,575</u>	<u>3,461,788</u>	<u>7,863,200</u>

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans

a. California Public Employees Retirement System

CALPERS

The City of Manhattan Beach's defined benefit pension plans (the "Safety and Miscellaneous Plans") provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. California Public Employees Retirement System (PERS) acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by state statutes within the Public Employees' Retirement Law. The City of Manhattan Beach selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance or resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS's annual financial report may be obtained from the PERS Executive Office - 400 P Street, Sacramento, California 95814.

In fiscal year 2001-2002, the City Safety Retirement Plan was unbundled and replaced with separate Police and Fire Plans. The Police Plan was modified from the 2% at 50 to the 3% at 50 benefits. The Fire Plan was modified from the 2% at 50 to the 3% at 55 benefits.

Miscellaneous Employees Plan

Plan Description

The City of Manhattan Beach contributes to CALPERS, an agent multiple-employer public employee defined benefit pension plan.

Funding Policy

Active plan members in the Miscellaneous Plans are required to contribute 7% of their annual covered salary, respectively. The City of Manhattan Beach is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. In accordance with existing bargaining group labor agreements, the City fully pays the employee contribution for all full time salaried safety and miscellaneous employees. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The Annual Valuation Report as of June 30, 2004 determined the required employer contribution rate for fiscal year 2006-2007 was 7.217% for miscellaneous employees. The contribution requirements of the plan members are established by state statute, and the employer contribution rate is established and adjusted in accordance with actuarial assumptions, investment performance, benefits and demographics.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

Assumptions

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The plans' actuarial value (which differs from fair value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Schedule of Funding Progress for PERS
Miscellaneous Plan
Most Recent Available

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	Unfunded Liability as % of Payroll
				(AVA)	Market Value		
6/30/2004	\$ 38,772,271	\$ 39,784,126	(1,011,855)	102.6%	100.8%	\$ 8,984,800	-11.3%
6/30/2005	41,904,317	42,266,305	(361,988)	100.9%	103.5%	9,495,383	-3.8%
6/30/2006	45,342,124	45,486,563	(144,439)	100.3%	106.1%	9,913,363	-1.5%

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

Safety Employees Plan

Plan Description

The City of Manhattan Beach contributes to CALPERS, a cost sharing multiple-employer public employee defined benefit pension plan.

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9% of their annual covered salary, respectively. The City of Manhattan Beach is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. In accordance with existing bargaining group labor agreements, the City fully pays the employee contribution for all full time salaried safety and miscellaneous employees. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The Annual Valuation Report as of June 30, 2004 determined the required employer contribution rate for fiscal year 2006-2007 was, 34.481%, and 29.426% for police and fire employees, respectively. The contribution requirements of the plan members are established by state statute, and the employer contribution rate is established and adjusted in accordance with actuarial assumptions, investment performance, benefits and demographics.

Mandatory Police & Fire Risk Pooling

The City of Manhattan Beach Police and Fire retirement plans participate in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups thereby reducing potential rate fluctuations that are incurred by small populations. Mandated participation in risk pools began in fiscal year 2005-2006 for plans with less than 100 active members based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The difference between the normal cost of each of the safety plans (based on final stand alone evaluation) and that of the pool is phased out over a five year period. The difference is charged in full in the first year, 80% in the second year and so on until the difference is phased out of the end of fiscal 2010-2011. Final stand alone normal costs for both safety plans was greater than that of the pool, In addition, each group is charged for class 1 benefits. a) one year final compensation and b) post retirement survivor continuance.

At the time that the City joined the risk pool, existing unfunded liabilities for both plans were transferred to the PERS "Side Fund". In March 2007, the City issued taxable pension bonds to pay off the side fund. The City will realize cost savings since the effective interest rate of the bonds is substantially lower than the amortization imputed interest rate. On June 30, 2007, the side funds equaled \$0 and \$0 for Police and Fire plans, respectively. These payoffs have significantly decreased (increased negative amount) the net pension obligation.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

Annual Pension Cost

For fiscal year 2006-2007, the City of Manhattan Beach's annual pension payments was \$3,776,221 for the Police, Fire and Miscellaneous Plans combined, and was equal to the City's required contributions. The City also contributed \$1,564,784 for the 2006-2007 fiscal year on behalf of the employees. The City's payroll for employees covered by the plans for the year ended June 30, 2007, was \$19,709,014. The total payroll for the year was \$24,620,393.

Three-Year Trend Information for PERS Police Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 1,622,501	97.42%	\$ (486,837)
6/30/2006	1,912,600	95.17%	(434,535)
6/30/2007	1,870,202	342.52%	(4,970,161)

Annual Pension Cost and Net Pension Obligation Police Plan

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2007, was as follows:

	<u>Police</u>
Annual required contributions (ARC)	\$ 1,904,968
Interest on net pension obligation (NPO)	(33,676)
Interest side fund obligation	(95,566)
Amortization of net pension obligation	94,476
Annual pension cost	1,870,202
Actual contributions made in fiscal year	<u>6,405,828</u>
Increase (Decrease) in NPO	(4,535,626)
NPO at Beginning of Year	<u>(434,535)</u>
NPO at End of Year	<u><u>\$ (4,970,161)</u></u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

Three-Year Trend Information for PERS Fire Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 890,449	97.36%	\$ (273,843)
6/30/2006	1,024,892	97.12%	(244,424)
6/30/2007	1,087,358	297.21%	(2,388,841)

Annual Pension Cost and Net Pension Obligation Fire Plan

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2007, was as follows:

	<u>Fire</u>
Annual required contributions (ARC)	\$ 1,098,456
Interest on net pension obligation (NPO)	(18,943)
Interest on side fund obligation	(45,297)
Amortization of net pension obligation	<u>53,142</u>
Annual pension cost	1,087,358
Actual contributions made in fiscal year	<u>3,231,775</u>
Increase (Decrease) in NPO	(2,144,417)
NPO at Beginning of Year	<u>(244,424)</u>
NPO at End of Year	<u>\$ (2,388,841)</u>

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2007, was as follows:

Three-Year Trend Information for PERS Miscellaneous Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ -	0%	\$ -
6/30/2006	637,762	100%	-
6/30/2007	772,796	100%	-

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

	<u>Misc</u>
Annual required contributions (ARC)	\$ 772,796
Interest on net pension obligation (NPO)	-
Amortization of net pension obligation	-
	<hr/>
Annual pension cost	772,796
Actual contributions made in fiscal year	<u>772,796</u>
Increase (Decrease) in NPO	-
NPO at Beginning of Year	<hr/> -
NPO at End of Year	<u><u>\$ -</u></u>

b. City Funded Pension Plans

1. Supplemental Retirement Plan

The Supplemental Retirement Plan is a single-employer defined benefit pension plan that covers Police, Fire and Management/Confidential employees who retired prior to January 1995. The plan provides the employee the difference between the benefit provided by the California Public Employees Retirement System (PERS) calculated under the life annuity option and the PERS benefit had the City adopted the Police Officers' Standards and Training (POST) widows and orphans salary continuation plan. The plan states, "The City shall pay each retiring officer, sergeant, lieutenant, firefighter and management employee upon retirement, a monthly amount which would make up the difference for that option of which the officer will receive from PERS under Government Code Section 21330 through 21335 and what only the officer would have received while alive had the City adopted the Police Officers' Standards and Training (POST) widows and orphans salary continuation plan. The payment shall be made to the officer only while the officer is alive and will cease upon death. Upon retirement, the right to their payment shall be regarded as a vested pension benefit to the same extent as the individual's retirement allowance." The benefit is payable for the life of the employee. The benefit is subject to a 2% annual cost-of-living increase. This plan is currently dormant as discussed in the next paragraph. The Supplemental Retirement Plan does not have a separate annual financial report.

The City has ceded the liabilities of active participants in the plan to PERS as of January 1, 1995. The City's remaining obligation is to fund the benefits for those participants who are currently retired.

The number of participants covered under the plan as of June 30, 2007, was as follows:

Retirees and beneficiaries receiving benefits:
Management/Confidential

6

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value. The city does not charge an administrative fee to the benefit plan.

Schedules of Funding Progress for Supplemental Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 227,989	\$ 208,773	\$ (19,216)	N/A	N/A
6/30/2002	234,488	200,915	(33,573)	N/A	N/A
6/30/2003	224,064	200,915	(23,149)	N/A	N/A
6/30/2004	196,711	196,289	(422)	N/A	N/A
6/30/2005	183,066	196,289	13,223	N/A	N/A
6/30/2006	192,805	192,805	-	N/A	N/A
6/30/2007	183,185	192,805	9,620	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	N/A	N/A
6/30/2007	N/A	N/A

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2006
Actuarial cost method	Projected Unit Cost Credit method
Amortization period	N/A plan is dormant
Remaining amortization period	N/A plan is dormant
Asset valuation method	N/A plan is dormant

Actuarial Assumptions:	
Investment rate of return	6.5%
Projected salary increases	N/A plan is dormant
Includes inflation at	N/A plan is dormant
Cost-of-living adjustments	2%

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

2. Single Highest Year Plan

The Single Highest Year Plan is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was adopted effective January 1, 1990, covering Management/Confidential Employees and Non-management/Confidential Sworn Police Employees on July 1, 1990, and is for employees who retired prior to May 1993. The plan is known as the City Funded Single Highest Year Plan. The plan pays a retiring employee the difference between the pension payable from PERS and what the PERS pension would be if it were based on the single highest year only. "The payment shall be made to the member only while the member is alive and will cease upon death." Upon retirement, the right to their payment shall be regarded as a vested pension benefit to the same extent as the individual's PERS retirement.

This plan is being accounted for in the Pension Fund. Benefits vest after five years of service. Retirees must qualify for PERS retirement to qualify for the Single Highest Year Plan. The benefit is payable for the life of the employee and is subject to a 2% annual cost of living increase. This plan is currently dormant as discussed in the next paragraph. The Single Highest Year Plan does not issue a separate annual financial report.

The City has ceded the liabilities of active participants in the plan to PERS as of July 1, 1993. The City's remaining obligation is to fund the benefits for those participants who are currently retired. The number of participants covered under the plan as of June 30, 2007, was as follows:

Retirees and beneficiaries receiving benefits:	
Management/Confidential	5
Miscellaneous	0
Fire	1
Police	<u>5</u>
Total	<u><u>11</u></u>

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value. The city does not charge an administrative fee to the benefit plan.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

Schedules of Funding Progress for Single Highest Year (Amounts in Thousands)					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 580,156	\$ 532,507	\$ (47,649)	N/A	N/A
6/30/2002	602,569	516,298	(86,271)	N/A	N/A
6/30/2003	582,400	516,298	(66,102)	N/A	N/A
6/30/2004	499,227	498,155	(1,072)	N/A	N/A
6/30/2005	472,367	498,155	25,788	N/A	N/A
6/30/2006	444,497	444,497	-	N/A	N/A
6/30/2007	428,561	444,497	15,936	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	N/A	N/A
6/30/2007	N/A	N/A

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2006
Actuarial cost method	Projected Unit Cost Credit Method
Amortization period	N/A plan is dormant
Remaining amortization period	N/A plan is dormant
Asset valuation method	N/A plan is dormant

Actuarial Assumptions:	
Investment rate of return	6.5%
Projected salary increases	N/A plan is dormant
Includes inflation at	N/A plan is dormant
Cost-of-living adjustments	2%

3. Post Retirement Plan for Firefighters

The Post Retirement Plan for Firefighters is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 7, 1996, and is covered under the collective bargaining agreement with the Firefighters Association. The plan covers all firefighters covered under the collective bargaining agreement with the Firefighter's Association of Manhattan Beach.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

The plan provides for \$300 per month to cover the cost of insurance premiums. Eligibility includes any firefighter who takes a service retirement on and after December 7, 1996, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits or reaches age 65. This plan is being accounted for in the Pension Fund. The Post Retirement Plan for Firefighters does not issue a separate annual financial report.

The number of participants covered under the plan as of June 30, 2007, was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	29
Fire - Retirees	<u>1</u>
Total	<u><u>30</u></u>

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value. The city does not charge an administrative fee to the benefit plan.

Schedules of Funding Progress for POST Retirement Health - Firefighters

Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 164,422	\$ 109,979	\$ (54,443)	N/A	N/A
6/30/2002	124,731	106,873	(17,858)	N/A	N/A
6/30/2003	130,150	106,873	(23,277)	N/A	N/A
6/30/2004	208,679	208,231	(448)	N/A	N/A
6/30/2005	217,113	208,231	(8,882)	N/A	N/A
6/30/2006	243,318	243,318	-	N/A	N/A
6/30/2007	270,166	243,318	(26,848)	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	\$ 9,290	N/A
6/30/2007	9,290	N/A

4. Post Retirement Plan for Police

The Post Retirement Plan for Police is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 1, 2004, and is covered under the collective bargaining agreement with the Police Officers Association.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

The plan covers all police officers under the collective bargaining agreement with the Police Officers Association of Manhattan Beach. The plan provides for \$300 per month to cover the cost of insurance premiums. Eligibility includes any officer who takes a service retirement on and after December 1, 2004, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits. This plan is being accounted for in the Pension Fund. The Post Retirement Plan for Police does not issue a separate annual financial report.

The number of participants covered under the plan as of June 30, 2007, was as follows:

Retirees and beneficiaries receiving benefits:	
Police - Active	57
Police - Retirees	<u>5</u>
Total	<u><u>62</u></u>

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value. The city does not charge an administrative fee to the benefit plan.

Schedules of Funding Progress for POST Retirement Health -Police

Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2005	\$ 695,000	\$ 695,000	\$ -	N/A	N/A
6/30/2006	738,719	677,092	(61,627)	N/A	N/A
6/30/2007	840,145	677,092	(163,053)	N/A	N/A

Plan liabilities reflect post retirement benefits as of 2005-2006, fiscal year. The value of plan assets is as of June 30, 2007. The plan's accrued liability at the plan inception was valued at \$695,000 and was funded via a transfer from available General Fund Reserves.

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2005	N/A	N/A
6/30/2006	\$ 6,273	N/A
6/30/2007	44,000	N/A

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 9: Retirement Plans (Continued)

5. Detail of Individual Pension Plans

Financial information for each City-sponsored pension plan is as follows:

Statement of Fiduciary Net Assets

	<u>Supplemental</u>	<u>Single Highest Year</u>	<u>Fire Medical</u>	<u>Police Medical</u>	<u>Total</u>
Assets:					
Cash and Investments	\$ 183,185	\$ 428,561	\$ 270,166	\$ 840,145	\$ 1,722,057
Total Assets	<u>183,185</u>	<u>428,561</u>	<u>270,166</u>	<u>840,145</u>	<u>1,722,057</u>
Net Assets:					
Held in trust for pension benefits and other purposes	<u>\$ 183,185</u>	<u>\$ 428,561</u>	<u>\$ 270,166</u>	<u>\$ 840,145</u>	<u>\$ 1,722,057</u>

Statement of Changes in Fiduciary Net Assets

Plan Activity	<u>Supplemental</u>	<u>Single Highest Year</u>	<u>Fire Medical</u>	<u>Police Medical</u>	<u>Total</u>
Additions:					
Contribution	\$ -	\$ -	\$ 9,290	\$ 44,000	\$ 53,290
Interest	16,050	37,269	21,919	67,398	142,636
Total Additions	<u>16,050</u>	<u>37,269</u>	<u>31,209</u>	<u>111,398</u>	<u>195,926</u>
Deductions:					
Benefits	25,670	53,205	4,361	9,972	93,208
Changes in net assets	(9,620)	(15,936)	26,848	101,426	102,718
Net Assets Held in Trust for Pension Benefits:					
Opening balance July 1, 2006	192,805	444,497	243,318	738,719	1,619,339
Ending balance June 30, 2007	<u>\$ 183,185</u>	<u>\$ 428,561</u>	<u>\$ 270,166</u>	<u>\$ 840,145</u>	<u>\$ 1,722,057</u>

6. Retirement Plan for Part-Time, Seasonal and Temporary Employees

On June 6, 1997, the City dissolved the City-administered retirement plan for part-time, seasonal and temporary employees and selected the Public Agency Retirement System (PARS) as the retirement program for this group.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 9: Retirement Plans (Continued)

The PARS plan is a defined contribution pension plan. All members' earnings are subject to contribution from the employee and the employer. The contribution rate for the employee is 3.75% and for the employer is 3.75% of payroll.

Total payroll for employees covered by this plan for the year was \$2,053,962. The amount of employee contribution was \$77,024, and employer contribution was \$77,024.

Note 10: Post-Employment Health Insurance

In addition to the medical benefits described in Note 8, the City provides certain health insurance benefits to those retirees participating in the CalPERS health insurance plan. The City is billed monthly by CalPERS. As of June 30, 2007, monthly contributions to the retirees are as follows: \$21.10 to 11 miscellaneous employees and \$22.70 to 30 management and safety employees. The City shall pay any mandated surcharge increases required by PERS.

The City recognizes the cost of providing these benefits by recording the insurance premiums as expenditures. The cost to the City in fiscal year 2006-2007 for this benefit was \$10,999.

Note 11: Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City adopted a self-insured workers' compensation program that is administered by City staff and a claims administrator.

The City is a member of the ICRMA, a public entity risk pool currently operating as a common risk management and insurance program for 24 California cities. The City pays an annual premium to the pool for its excess insurance coverage including property (earthquake, flood and all risk), workers compensation and general liability. The City also purchases a separate earthquake policy for the public safety facility.

For workers compensation, the City is self-insured for the first \$750,000 on each claim with excess coverage up to a limit of \$200,000,000. For general liability, the City is self-insured for the first \$500,000 on each claim against with excess coverage up to a limit of \$20,000,000. The City is insured for property losses with a deductible of \$10,000 all risk (fire and theft) and earthquake loss with a deductible of 5% or \$100,000, whichever is greater.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2007, the amount of these liabilities was \$5,963,069. The amount represents an estimate of \$3,965,072 for reported claims through June 30, 2007, and \$1,997,997 of estimated incurred but not reported claims. This liability is the City's best estimate based on available information. Changes in the reported liability at June 30, 2007, resulted from the following:

Year	Liability Beginning of Year	Current Year Claims and Changes in Estimates	Claims and Payments	Liability End of Year
2006	\$ 5,400,892	\$ 1,377,098	\$ (1,336,216)	\$ 5,441,774
2007	5,441,774	3,261,371	(2,740,076)	5,963,069

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 11: Risk Management (Continued)

During the past three fiscal (claims) years, none of the above programs have had settlements or judgments that exceed pooled or insured coverage. There have been no significant reductions in pooled or insured coverages from coverage in the prior year.

The ICRMA has published its own financial report for the year ended June 30, 2007, which can be obtained from Independent Cities Risk Management Authority, 14156 Magnolia Park, Sherman Oaks, California.

Note 12: Joint Ventures and Jointly Governed Organizations

a. Joint Venture

South Bay Regional Public Communications Authority

The City is a member of the South Bay Regional Public Communications Authority (SBRPCA), a joint powers authority of the cities of Manhattan Beach, Gardena and Hawthorne. SBRPCA was formed October 14, 1975, for the purpose of financing a public safety communications system for the member cities. The Governing Board is composed of an elected official of each member city. An executive committee is composed of the city managers of each member city. The City's participation percentage at June 30, 2006, was 22.7%.

Summarized audited financial information for SBRPCA at June 30, 2006*, is presented below:

<u>Statement of Net Assets</u>	
Current assets	\$ 2,145,847
Noncurrent assets	967,226
Capital assets	<u>8,175,868</u>
Total Assets	<u>11,288,941</u>
Liabilities to member cities (all current)	730,278
Noncurrent liabilities	190,851
Bonds payable	<u>8,075,000</u>
Total Liabilities	<u>8,996,129</u>
Total Net Assets	<u>\$ 2,292,812</u>
 <u>Statement of Activities</u>	
Revenues	\$ 7,202,963
Expenditures	<u>(6,768,206)</u>
Excess of Expenditures Over Revenues	434,757
Net Assets - June 30, 2005	<u>1,858,055</u>
Net Assets - June 30, 2006	<u>\$ 2,292,812</u>

*Most current information available. SBRPCA has issued its own separate financial statements, which are available at 4440 W. Broadway, Hawthorne, California 90250.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 12: Joint Ventures and Jointly Governed Organizations (Continued)

b. Jointly Governed Organization

Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force

The City of Manhattan Beach is a member of Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force (L.A. IMPACT), a joint powers authority of the police departments of cities and other institutions in Los Angeles County. The Organization was formed July 1, 1991, with the mission to promote coordinated law enforcement efforts and to address emerging criminal justice issues, mainly in the areas of drug trafficking enterprise and money laundering. The Executive Council consists of 14 police chiefs and other various police officers. All financial decisions were made by the Executive Council. The members received monetary distributions from the asset seizures based on their respective contribution to the effort.

Summarized audited financial information for L.A. IMPACT at June 30, 2006*, is presented below:

Statement of Net Assets

Current assets	\$ 3,033,026
Capital assets	55,149
Total Assets	<u>3,088,175</u>
Liabilities to member cities (all current)	<u>464,297</u>
Total Net Assets	<u><u>\$ 2,623,878</u></u>

Statement of Activities

Revenues	\$ 4,005,873
Expenditures	<u>(3,739,439)</u>
Excess of Expenditures Over Revenues	266,434
Net Assets - June 30, 2005	<u>2,357,444</u>
Net Assets - June 30, 2006	<u><u>\$ 2,623,878</u></u>

*Most current information available.

LA Impact has issued its own separate financial statements, which are available at 5700 S. Eastern Avenue, Commerce, California 90040.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 13: Employee 401(a) Plan

The City contributes to a 401(a) plan to its management confidential employees into which employees can make voluntary post-tax contributions. The market value of the plan assets at June 30, 2007, was \$1,575,869.

As of June 30, 2007, the following balances of assets and liabilities were present:

	Market Value 401(a) Plan
Total Assets	<u>\$1,575,869</u>
Liability to Plan Participants	<u><u>\$1,575,869</u></u>

Note 14: Related Party Transactions

In June 1995, the City entered into a loan agreement with its City Manager to be used toward the purchase of his residence within the City. The original loan amount was \$430,000. The outstanding loan amount of \$309,205 was paid in full at June 30, 2007.

Note 15: Commitments and Contingencies

Contingencies:

There are certain lawsuits pending against the City that seek monetary damages. Potential liabilities due to these claims are accounted in the Insurance Reserve Fund.

Commitments & Contracts:

Construction Contract – Strand Lighting & Walkway Improvements

The City of Manhattan Beach entered into a contract with Pazargad Engineering Construction, Inc. for improvements to the beach front strand walkway. The contract was for \$3,543,914. As of June 30, 2007, construction costs were \$3,556,210. The project was completed in fiscal year 2007-2008 and the completed cost was \$3,568,453.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 16: Fund Balance and Net Assets Restatement

Beginning fund equity has been restated as follows:

Major Governmental Fund:

General Fund - Beginning Balance as originally Stated

To record beginning cash with fiscal agent balance held
with trustee.

\$ 202,807

Net assets have been restated as follows:

Governmental Activities:

To record the SBRPCA 2001 Series B Bond

(1,905,000)

To record the investment in SBRPCA

1,855,268

Total restatements

\$ 153,075



Combining Financial Statements & Schedules

CITY OF MANHATTAN BEACH

JUNE 30, 2007

NONMAJOR FUNDS

Special Revenue Fund Description

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted by law to expenditures for specified purposes.

Street Lighting and Landscape Fund provides the power, maintenance and capital improvements for the lighting system within the City of Manhattan Beach. Money is received from a special assessment placed on each tax bill in the City, the amount of which is determined by the benefit received by the owner of each property.

Gas Tax Fund is used to account for the City's share of state and county gasoline tax collection in accordance with the provisions of the State of California Streets and Highway Code. Revenues are disbursed by the state based on population and must be used toward the maintenance and repair of City streets that serve as state and county thoroughfares.

Asset Forfeiture Fund is used to account for funds received through federal and state agencies for drug seizures in which the City participated. These funds must be used to supplement, not supplant, the Police Department's normal operating budget. The amount of revenue will vary from year to year based on activity levels.

Public Safety Grants are used for monies received from the federal and state governments for the purposes of supplementing front-line law enforcement services.

Federal and State Grants Fund acts as a pass through for capital grants received from local, state and federal authorities. Given the nature of this funding source, this fund's activity levels can vary significantly from year to year.

Proposition A and C Funds are used to account for proceeds from the half-cent sales taxes generated by the approval of Proposition A and C by Los Angeles County voters. These funds, which are administered by the Los Angeles County Metropolitan Transportation Authority (MTA), are distributed based on population and must be used for transportation-related projects.

AB 2766 Fund is used to account for proceeds received from the additional vehicle registration fee imposed by the state and regulated by the Air Quality Management District (AQMD). These funds are distributed based on population and must be used for programs designed to reduce air pollution from motor vehicles.

Capital Project Fund Description

Capital Projects Funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities, other than those financed by Enterprise or Internal Service Funds.

Safety and Civic Center Construction Fund accounts for the resources for the construction of the new police and fire facility.

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	<u>Special Revenue Funds</u>			
	<u>Street Lighting and Landscape</u>	<u>Gas Tax</u>	<u>Asset Forfeiture</u>	<u>Public Safety Grants</u>
Assets:				
Pooled cash and investments	\$ 35,387	\$ 2,381,624	\$ 801,507	\$ 110,773
Receivables:				
Accounts	10,894	-	-	-
Due from other governments	-	63,862	-	-
	<u>-</u>	<u>63,862</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 46,281</u>	<u>\$ 2,445,486</u>	<u>\$ 801,507</u>	<u>\$ 110,773</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 46,281	\$ 498,680	\$ 391	\$ 1,307
Due to other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>46,281</u>	<u>498,680</u>	<u>391</u>	<u>1,307</u>
Fund Balances:				
Fund balances:				
Reserved for:				
Encumbrances	3,200	-	-	6,227
Continuing projects	-	1,361,078	-	-
Unreserved:				
Undesignated	(3,200)	585,728	801,116	103,239
	<u>(3,200)</u>	<u>585,728</u>	<u>801,116</u>	<u>103,239</u>
Total Fund Balances	<u>-</u>	<u>1,946,806</u>	<u>801,116</u>	<u>109,466</u>
Total Liabilities and Fund Balances	<u>\$ 46,281</u>	<u>\$ 2,445,486</u>	<u>\$ 801,507</u>	<u>\$ 110,773</u>

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

(Continued)

	<u>Special Revenue Funds</u>			
	<u>Federal and State Grants</u>	<u>Prop A</u>	<u>Prop C</u>	<u>AB 2766</u>
Assets:				
Pooled cash and investments	\$ -	\$ 435,041	\$ 1,864,601	\$ 194,657
Receivables:				
Accounts	-	-	-	-
Due from other governments	20,000	-	-	11,396
Total Assets	\$ 20,000	\$ 435,041	\$ 1,864,601	\$ 206,053
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 28,597	\$ 125,000	\$ -
Due to other funds	20,000	-	-	-
Total Liabilities	20,000	28,597	125,000	-
Fund Balances:				
Fund balances:				
Reserved for:				
Encumbrances	-	-	-	-
Continuing projects	-	-	996,884	-
Unreserved:				
Undesignated	-	406,444	742,717	206,053
Total Fund Balances	-	406,444	1,739,601	206,053
Total Liabilities and Fund Balances	\$ 20,000	\$ 435,041	\$ 1,864,601	\$ 206,053

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Safety and Civic Center Construction</u>	
Assets:		
Pooled cash and investments	\$ -	\$ 5,823,590
Receivables:		
Accounts	-	10,894
Due from other governments	-	95,258
	<u>-</u>	<u>95,258</u>
Total Assets	<u><u>\$ -</u></u>	<u><u>\$ 5,929,742</u></u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ -	\$ 700,256
Due to other funds	-	20,000
	<u>-</u>	<u>20,000</u>
Total Liabilities	<u>-</u>	<u>720,256</u>
Fund Balances:		
Fund balances:		
Reserved for:		
Encumbrances	-	9,427
Continuing projects	-	2,357,962
Unreserved:		
Undesignated	-	2,842,097
	<u>-</u>	<u>2,842,097</u>
Total Fund Balances	<u>-</u>	<u>5,209,486</u>
Total Liabilities and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ 5,929,742</u></u>

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			
	Street Lighting and Landscape	Gas Tax	Asset Forfeiture	Public Safety Grants
Revenues:				
Taxes and assessments	\$ 379,792	\$ -	\$ -	\$ -
Intergovernmental	-	973,417	35,530	100,000
Charges for services	-	-	-	-
Use of money and property	1,698	168,398	43,566	9,028
Miscellaneous	59,081	-	-	-
Total Revenues	440,571	1,141,815	79,096	109,028
Expenditures:				
Current:				
Public safety	-	-	9,257	205,332
Culture and recreation	-	-	-	-
Public works	586,671	2,051,210	-	-
Total Expenditures	586,671	2,051,210	9,257	205,332
Excess (Deficiency) of Revenues Over (Under) Expenditures	(146,100)	(909,395)	69,839	(96,304)
Other Financing Sources (Uses):				
Transfers in	69,270	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	69,270	-	-	-
Net Change in Fund Balances	(76,830)	(909,395)	69,839	(96,304)
Fund Balances, Beginning of Year	76,830	2,856,201	731,277	205,770
Fund Balances, End of Year	\$ -	\$ 1,946,806	\$ 801,116	\$ 109,466

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

(Continued)

	Special Revenue Funds			
	Federal and State Grants	Prop A	Prop C	AB 2766
Revenues:				
Taxes and assessments	\$ -	\$ 589,751	\$ 490,498	\$ -
Intergovernmental	897,750	-	-	43,900
Charges for services	-	6,940	-	-
Use of money and property	-	24,402	86,920	9,075
Miscellaneous	-	9,994	-	-
Total Revenues	897,750	631,087	577,418	52,975
Expenditures:				
Current:				
Public safety	-	-	-	-
Culture and recreation	-	573,740	-	-
Public works	897,750	10,455	112,719	2,000
Total Expenditures	897,750	584,195	112,719	2,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	46,892	464,699	50,975
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	46,892	464,699	50,975
Fund Balances, Beginning of Year	-	359,552	1,274,902	155,078
Fund Balances, End of Year	\$ -	\$ 406,444	\$ 1,739,601	\$ 206,053

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	<u>Capital Project Fund Safety and Civic Center Construction</u>	<u>Total Governmental Funds</u>
Revenues:		
Taxes and assessments	\$ -	\$ 1,460,041
Intergovernmental	-	2,050,597
Charges for services	-	6,940
Use of money and property	91,956	435,043
Miscellaneous	-	69,075
	<u>91,956</u>	<u>4,021,696</u>
Total Revenues		
Expenditures:		
Current:		
Public safety	-	214,589
Culture and recreation	-	573,740
Public works	2,255,558	5,916,363
	<u>2,255,558</u>	<u>6,704,692</u>
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,163,602)</u>	<u>(2,682,996)</u>
Other Financing Sources (Uses):		
Transfers in	-	69,270
Transfers out	(1,441,557)	(1,441,557)
	<u>(1,441,557)</u>	<u>(1,372,287)</u>
Total Other Financing Sources (Uses)		
Net Change in Fund Balances	<u>(3,605,159)</u>	<u>(4,055,283)</u>
Fund Balances, Beginning of Year	3,605,159	9,264,769
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 5,209,486</u>

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 STREET LIGHTING AND LANDSCAPE
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 76,830	\$ 76,830	\$ 76,830	\$ -
Resources (Inflows):				
Taxes and assessments	385,764	385,764	379,792	(5,972)
Use of money and property	3,000	3,000	1,698	(1,302)
Miscellaneous	58,115	58,115	59,081	966
Transfers from other funds	-	-	69,270	69,270
Amounts Available for Appropriation	523,709	523,709	586,671	62,962
Charges to Appropriation (Outflow):				
Public works	172,074	504,076	586,671	(82,595)
Total Charges to Appropriations	172,074	504,076	586,671	(82,595)
Budgetary Fund Balance, June 30	\$ 351,635	\$ 19,633	\$ -	\$ (19,633)

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 GAS TAX
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 2,856,201	\$ 2,856,201	\$ 2,856,201	\$ -
Resources (Inflows):				
Intergovernmental	685,000	725,000	973,417	248,417
Use of money and property	69,750	69,750	168,398	98,648
Amounts Available for Appropriation	3,610,951	3,650,951	3,998,016	347,065
Charges to Appropriation (Outflow):				
Public works	787,589	3,506,010	2,051,210	1,454,800
Total Charges to Appropriations	787,589	3,506,010	2,051,210	1,454,800
Budgetary Fund Balance, June 30	\$ 2,823,362	\$ 144,941	\$ 1,946,806	\$ 1,801,865

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 ASSET FORFEITURE
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 731,277	\$ 731,277	\$ 731,277	\$ -
Resources (Inflows):				
Intergovernmental	-	-	35,530	35,530
Use of money and property	21,250	21,250	43,566	22,316
Amounts Available for Appropriation	752,527	752,527	810,373	57,846
Charges to Appropriation (Outflow):				
Public safety	120,655	120,655	9,257	111,398
Total Charges to Appropriations	120,655	120,655	9,257	111,398
Budgetary Fund Balance, June 30	\$ 631,872	\$ 631,872	\$ 801,116	\$ 169,244

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PUBLIC SAFETY GRANTS
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 205,770	\$ 205,770	\$ 205,770	\$ -
Resources (Inflows):				
Intergovernmental	-	-	100,000	100,000
Use of money and property	-	-	9,028	9,028
Amounts Available for Appropriation	205,770	205,770	314,798	109,028
Charges to Appropriation (Outflow):				
Public safety	-	207,457	205,332	2,125
Total Charges to Appropriations	-	207,457	205,332	2,125
Budgetary Fund Balance, June 30	\$ 205,770	\$ (1,687)	\$ 109,466	\$ 111,153

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 FEDERAL AND STATE GRANTS
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Intergovernmental	3,220,000	3,220,000	897,750	(2,322,250)
Amounts Available for Appropriation	3,220,000	3,220,000	897,750	(2,322,250)
Charges to Appropriation (Outflow):				
Public works	3,220,000	3,220,000	897,750	2,322,250
Total Charges to Appropriations	3,220,000	3,220,000	897,750	2,322,250
Budgetary Fund Balance, June 30	\$ -	\$ -	\$ -	\$ -

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION A
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 359,552	\$ 359,552	\$ 359,552	\$ -
Resources (Inflows):				
Taxes and assessments	536,000	536,000	589,751	53,751
Charges for services	6,000	6,000	6,940	940
Use of money and property	9,000	9,000	24,402	15,402
Miscellaneous	-	-	9,994	9,994
Amounts Available for Appropriation	910,552	910,552	990,639	80,087
Charges to Appropriation (Outflow):				
Culture and recreation	549,619	558,024	573,740	(15,716)
Public works	25,000	25,000	10,455	14,545
Total Charges to Appropriations	574,619	583,024	584,195	(1,171)
Budgetary Fund Balance, June 30	\$ 335,933	\$ 327,528	\$ 406,444	\$ 78,916

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION C
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,274,902	\$ 1,274,902	\$ 1,274,902	\$ -
Resources (Inflows):				
Taxes and assessments	430,350	430,350	490,498	60,148
Use of money and property	34,500	34,500	86,920	52,420
Amounts Available for Appropriation	1,739,752	1,739,752	1,852,320	112,568
Charges to Appropriation (Outflow):				
Public works	34,649	1,213,653	112,719	1,100,934
Total Charges to Appropriations	34,649	1,213,653	112,719	1,100,934
Budgetary Fund Balance, June 30	\$ 1,705,103	\$ 526,099	\$ 1,739,601	\$ 1,213,502

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE

AB 2766

YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 155,078	\$ 155,078	\$ 155,078	\$ -
Resources (Inflows):				
Intergovernmental	42,820	42,820	43,900	1,080
Use of money and property	3,580	3,580	9,075	5,495
Amounts Available for Appropriation	201,478	201,478	208,053	6,575
Charges to appropriation (outflow):				
Public works	2,000	2,000	2,000	-
Total Charges to Appropriations	2,000	2,000	2,000	-
Budgetary Fund Balance, June 30	\$ 199,478	\$ 199,478	\$ 206,053	\$ 6,575

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 CAPITAL IMPROVEMENT
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 5,774,085	\$ 5,774,085	\$ 5,774,085	\$ -
Resources (Inflows):				
Taxes and assessments	474,264	474,264	542,000	67,736
Licenses and permits	45,360	45,360	47,242	1,882
Intergovernmental	549,628	-	181,226	181,226
Charges for services	-	549,627	556,178	6,551
Use of money and property	37,000	37,000	53,386	16,386
Fines and forfeitures	130,810	130,810	127,384	(3,426)
Miscellaneous	-	100,000	100,000	-
Transfers from other funds	-	3,901,268	3,901,268	-
Amounts Available for Appropriation	7,011,147	11,012,414	11,282,769	270,355
Charges to Appropriation (Outflow):				
General government	-	480,000	396,762	83,238
Public safety	-	818,500	815,106	3,394
Culture and recreation	-	2,807,000	355,290	2,451,710
Public works	-	3,375,161	2,162,867	1,212,294
Total Charges to Appropriations	-	7,480,661	3,730,025	3,750,636
Budgetary Fund Balance, June 30	\$ 7,011,147	\$ 3,531,753	\$ 7,552,744	\$ 4,020,991

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 SAFETY AND CIVIC CENTER CONSTRUCTION
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 3,605,159	\$ 3,605,159	\$ 3,605,159	\$ -
Resources (Inflows):				
Use of money and property	-	-	91,956	91,956
Amounts Available for Appropriation	3,605,159	3,605,159	3,697,115	91,956
Charges to Appropriation (Outflow):				
Public works	-	3,399,205	2,255,558	1,143,647
Transfers to other funds	-	1,000,000	1,441,557	(441,557)
Total Charges to Appropriations	-	4,399,205	3,697,115	702,090
Budgetary Fund Balance, June 30	\$ 3,605,159	\$ (794,046)	\$ -	\$ 794,046

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 UNDERGROUND ASSESSMENT DISTRICT
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 3,259,485	\$ 3,259,485	\$ 3,259,485	\$ -
Resources (Inflows):				
Taxes and assessments	-	-	148,556	148,556
Contributions from property owners	-	8,498,306	8,498,306	-
Use of money and property	-	-	55,112	55,112
Amounts Available for Appropriation	3,259,485	11,757,791	11,961,459	203,668
Charges to Appropriation (Outflow):				
Public works	-	11,794,602	11,168,303	626,299
Transfers to other funds	-	132,564	132,564	-
Contribution to Agency	-	2,701	2,701	-
Total Charges to Appropriations	-	11,929,867	11,303,568	626,299
Budgetary Fund Balance, June 30	\$ 3,259,485	\$ (172,076)	\$ 657,891	\$ 829,967

CITY OF MANHATTAN BEACH

JUNE 30, 2007

NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for City operations that are financed and operated in a manner similar to private business enterprises. The intent in using this type of fund is to see that the costs of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

Storm Water Fund is used to account for the maintenance and improvement of the City's storm drains. Revenues are derived from a storm drain assessment to property owners, which are based on size and use of the parcel, and collected through the property tax rolls.

Refuse Fund is used to account for the provision of refuse collection, street sweeping and recycling services in the City. The City bills both residential and commercial properties.

County Parking Lot Fund is used to account for the operation and maintenance of parking lots that are owned by Los Angeles County but leased to the City. Proceeds from the meters and parking permits are divided 55% to the county, with an annual guaranteed minimum of \$130,000 and 45% to the City.

State Pier and Parking Lot Fund is used to account for the operation and maintenance of the Manhattan Beach Pier, comfort station and four adjacent parking lots. These properties are owned by the state but controlled by the City through an operating agreement.

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2007

	<u>Stormwater</u>	<u>Refuse</u>	<u>County Parking Lot</u>	<u>State Pier and Parking Lot</u>	<u>Totals</u>
Assets:					
Current:					
Cash and investments	\$ 1,205,524	\$ 937,863	\$ 118,256	\$ 1,769,699	\$ 4,031,342
Receivables:					
Accounts	12,738	314,695	-	-	327,433
Total Current Assets	<u>1,218,262</u>	<u>1,252,558</u>	<u>118,256</u>	<u>1,769,699</u>	<u>4,358,775</u>
Noncurrent:					
Capital assets - net of accumulated depreciation	4,259,891	-	-	-	4,259,891
Total Noncurrent Assets	<u>4,259,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,259,891</u>
Total Assets	<u>\$ 5,478,153</u>	<u>\$ 1,252,558</u>	<u>\$ 118,256</u>	<u>\$ 1,769,699</u>	<u>\$ 8,618,666</u>
Liabilities and Net Assets:					
Liabilities:					
Current:					
Accounts payable	\$ 14,244	\$ 301,261	\$ 117,476	\$ 24,756	\$ 457,737
Deposits payable	14,609	-	548	-	15,157
Total Current Liabilities	<u>28,853</u>	<u>301,261</u>	<u>118,024</u>	<u>24,756</u>	<u>472,894</u>
Total Liabilities	<u>28,853</u>	<u>301,261</u>	<u>118,024</u>	<u>24,756</u>	<u>472,894</u>
Net Assets:					
Invested in capital assets, net of related debt	4,259,891	-	-	-	4,259,891
Unrestricted	1,189,409	951,297	232	1,744,943	3,885,881
Total Net Assets	<u>5,449,300</u>	<u>951,297</u>	<u>232</u>	<u>1,744,943</u>	<u>8,145,772</u>
Total Liabilities and Net Assets	<u>\$ 5,478,153</u>	<u>\$ 1,252,558</u>	<u>\$ 118,256</u>	<u>\$ 1,769,699</u>	<u>\$ 8,618,666</u>

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Stormwater	Refuse	County Parking Lot	State Pier and Parking Lot	Totals
Operating Revenues:					
Sales and service charges	\$ 348,929	\$3,866,381	\$ 377,572	\$ 300,157	\$ 4,893,039
Miscellaneous	5,000	-	-	13,120	18,120
Total Operating Revenues	353,929	3,866,381	377,572	313,277	4,911,159
Operating Expenses:					
Salaries and wages	45,060	-	18,563	19,740	83,363
Employee benefits	17,120	-	6,004	6,156	29,280
Contract and professional services	84,466	3,365,533	43,679	147,660	3,641,338
Materials and services	19,951	131,797	7,680	26,015	185,443
Utilities	8,052	291	2,761	37,156	48,260
Administrative service charges	-	360,780	16,769	16,769	394,318
Leases and rents	-	-	207,665	-	207,665
Depreciation	147,916	-	-	-	147,916
Total Operating Expenses	322,565	3,858,401	303,121	253,496	4,737,583
Operating Income (Loss)	31,364	7,980	74,451	59,781	173,576
Nonoperating Revenues (Expenses):					
Grant revenue	-	10,861	-	-	10,861
Interest revenue	65,253	50,713	-	100,954	216,920
Total Nonoperating Revenues (Expenses)	65,253	61,574	-	100,954	227,781
Income (Loss) Before Transfers	96,617	69,554	74,451	160,735	401,357
Transfers out	-	-	(76,000)	-	(76,000)
Changes in Net Assets	96,617	69,554	(1,549)	160,735	325,357
Net Assets:					
Beginning of Year	5,352,683	881,743	1,781	1,584,208	7,820,415
End of Fiscal Year	\$ 5,449,300	\$ 951,297	\$ 232	\$ 1,744,943	\$ 8,145,772

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Stormwater	Refuse	County Parking Lot	State Pier and Parking Lot	Totals
Cash Flows from Operating Activities:					
Cash received from customers and users	\$ 359,215	\$ 3,848,894	\$ 377,563	\$ 313,277	\$ 4,898,949
Cash received from/(paid to) interfund service provided					
Cash paid to suppliers for goods and services	(124,444)	(3,381,763)	(255,252)	(209,167)	(3,970,626)
Cash paid to employees for services	(59,371)	-	(23,370)	(25,896)	(108,637)
Cash paid for interfund services used	(70,149)	(464,516)	(16,769)	(7,081)	(558,515)
Net Cash Provided (Used) by Operating Activities	105,251	2,615	82,172	71,133	261,171
Cash Flows from Non-Capital Financing Activities:					
Grant revenue	-	10,861	-	-	10,861
Cash transfers out	-	-	(76,000)	-	(76,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	-	10,861	(76,000)	-	(65,139)
Cash Flows from Capital and Related Financing Activities:					
Purchases of capital assets	(59,916)	-	-	-	(59,916)
Net Cash Provided (Used) by Capital and Related Financing Activities	(59,916)	-	-	-	(59,916)
Cash Flows from Investing Activities:					
Interest received	65,253	50,713	-	100,954	216,920
Net Cash Provided (Used) by Investing Activities	65,253	50,713	-	100,954	216,920
Net Increase (Decrease) in Cash and Cash Equivalents	110,588	64,189	6,172	172,087	353,036
Cash and Cash Equivalents at Beginning of Year	1,094,936	873,674	112,084	1,597,612	3,678,306
Cash and Cash Equivalents at End of Year	\$ 1,205,524	\$ 937,863	\$ 118,256	\$ 1,769,699	\$ 4,031,342
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 31,364	\$ 7,980	\$ 74,451	\$ 59,781	\$ 173,576
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:					
Depreciation	147,916	-	-	-	147,916
(Increase) decrease in accounts receivable	10,286	(17,446)	-	-	(7,160)
Increase (decrease) in accounts payable	(4,085)	12,081	7,721	11,352	27,069
Increase (decrease) in deposits payable	(80,230)	-	-	-	(80,230)
Total Adjustments	73,887	(5,365)	7,721	11,352	87,595
Net Cash Provided (Used) by Operating Activities	\$ 105,251	\$ 2,615	\$ 82,172	\$ 71,133	\$ 261,171

Non-Cash Investing, Capital, and Financing Activities:

During fiscal year 2006-2007, there was no noncash investing, capital and financing activities.

CITY OF MANHATTAN BEACH

JUNE 30, 2007

NONMAJOR INTERNAL SERVICE FUNDS

Internal Service Funds have been established to finance, administer and account for the provision of goods and services to all funds and all departments on a cost-reimbursement basis.

Insurance Reserve Fund is used to account for the City's self-insured workers' compensation and general liability programs. The fund collects premiums from departments based on claims history.

Information Systems Fund is used to account for the operation, maintenance and replacement of the City's Information Systems including the City wide network and related hardware and software. Revenues are generated from charges to departments based on the number of PCs in use.

Fleet Management Fund is used to account for the operation, maintenance and replacement of City vehicles. Revenues are generated from vehicle rental charges to departments based upon the number, type and age of vehicles utilized.

Building Maintenance and Operations Fund is used to account for the operation and maintenance of certain City facilities. Revenues are generated by charges to user departments based on the number of personnel in the department.

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2007

	Insurance Reserve	Information Systems	Fleet Management	Building Maintenance and Operations	Total
Assets:					
Current:					
Cash and investments	\$ 6,986,207	\$ 556,629	\$ 1,608,562	\$ 58,960	\$ 9,210,358
Receivables (net of allowance for uncollectibles):					
Accounts	-	-	8,187	-	8,187
Inventories	-	-	-	126,545	126,545
Total Current Assets	6,986,207	556,629	1,616,749	185,505	9,345,090
Noncurrent:					
Capital assets - net of accumulated depreciation	-	-	3,123,710	-	3,123,710
Total Noncurrent Assets	-	-	3,123,710	-	3,123,710
Total Assets	\$ 6,986,207	\$ 556,629	\$ 4,740,459	\$ 185,505	\$12,468,800
Liabilities and Fund Equity:					
Liabilities:					
Current:					
Accounts payable	\$ 2,000	\$ 25,467	\$ 52,740	\$ 49,643	\$ 129,850
Workers' compensation claims	3,106,276	-	-	-	3,106,276
General liability claims	858,796	-	-	-	858,796
Lease payable - current	-	-	168,182	-	168,182
Total Current Liabilities	3,967,072	25,467	220,922	49,643	4,263,104
Noncurrent:					
Workers' compensation claims	1,718,382	-	-	-	1,718,382
General liability claims	279,615	-	-	-	279,615
Lease payable	-	-	390,009	-	390,009
Total Noncurrent Liabilities:	1,997,997	-	390,009	-	2,388,006
Total Liabilities	5,965,069	25,467	610,931	49,643	6,651,110
Net Assets:					
Invested in capital assets, net of related debt	-	-	2,565,519	-	2,565,519
Unrestricted	1,021,138	531,162	1,564,009	135,862	3,252,171
Total Net Assets	1,021,138	531,162	4,129,528	135,862	5,817,690
Total Liabilities and Net Assets	\$ 6,986,207	\$ 556,629	\$ 4,740,459	\$ 185,505	\$ 12,468,800

CITY OF MANHATTAN BEACH

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2007**

	Insurance Reserve	Information Systems	Fleet Management	Building Maintenance and Operations	Totals
Operating Revenues:					
Sales and service charges	\$ 3,055,980	\$ 1,014,360	\$ 1,746,105	\$ 1,206,930	\$ 7,023,375
Miscellaneous	136,224	-	213,769	-	349,993
Total Operating Revenues	3,192,204	1,014,360	1,959,874	1,206,930	7,373,368
Operating Expenses:					
Salaries and wages	167,661	329,114	219,409	162,950	879,134
Employee benefits	56,025	84,741	200,385	49,390	390,541
Contract and professional services	19,189	119,440	99,731	513,537	751,897
Materials and services	33,659	423,762	573,448	299,429	1,330,298
Utilities	8,164	2,025	-	133,613	143,802
Administrative service charges	66,545	-	53,248	28,386	148,179
Leases and rents	-	-	6,000	-	6,000
Claims expense	2,961,602	-	-	-	2,961,602
Depreciation	-	-	572,973	-	572,973
Total Operating Expenses	3,312,845	959,082	1,725,194	1,187,305	7,184,426
Operating Income (Loss)	(120,641)	55,278	234,680	19,625	188,942
Non-Operating Revenues (Expenses):					
Interest expense	-	-	(22,246)	-	(22,246)
Total Non-Operating Revenues	-	-	(22,246)	-	(22,246)
Income Before Contributions and Transfers	(120,641)	55,278	212,434	19,625	166,696
Transfers in	1,343,904	-	-	-	1,343,904
Change in Net Assets	1,223,263	55,278	212,434	19,625	1,510,600
Net Assets:					
Beginning of Year	(202,125)	475,884	3,917,094	116,237	4,307,090
End of Fiscal Year	\$ 1,021,138	\$ 531,162	\$ 4,129,528	\$ 135,862	\$ 5,817,690

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2007

	Insurance Reserve	Information Systems	Fleet Management
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 141,123	\$ -	\$ 31,302
Cash received from interfund service provided	3,055,980	1,014,360	1,713,553
Cash paid to suppliers for goods and services	(2,279,180)	(546,634)	(645,735)
Cash paid to employees for services	(212,792)	(392,253)	(283,650)
Cash paid for interfund services used	(312,229)	(28,142)	-
Net Cash Provided (Used) by Operating Activities	392,902	47,331	815,470
Cash Flows from Non-Capital Financing Activities:			
Cash transfers in	1,343,904	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	1,343,904	-	-
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	-	-	(735,448)
Principal paid on capital debt	-	-	(162,503)
Interest paid on debt	-	-	(22,246)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(920,197)
Net Increase (Decrease) in Cash and Cash Equivalents	1,736,806	47,331	(104,727)
Cash and Cash Equivalents at Beginning of Year	5,249,401	509,298	1,713,289
Cash and Cash Equivalents at End of Year	\$ 6,986,207	\$ 556,629	\$ 1,608,562
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (120,641)	\$ 55,278	\$ 234,680
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	-	-	572,973
(Increase) decrease in accounts receivable	-	-	(8,187)
(Increase) decrease in inventory	-	-	-
Increase (decrease) in accounts payable	(7,753)	(7,947)	16,004
Increase (decrease) in claims and judgments	521,296	-	-
Total Adjustments	513,543	(7,947)	580,790
Net Cash Provided (Used) by Operating Activities	\$ 392,902	\$ 47,331	\$ 815,470

Non-Cash Investing, Capital, and Financing Activities:
During fiscal year 2006-2007, there was no noncash investing, capital and financing activities.

CITY OF MANHATTAN BEACH

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2007**

	Building Maintenance and Operations	Totals
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 8,165	\$ 180,590
Cash received from interfund service provided	1,190,671	6,974,564
Cash paid to suppliers for goods and services	(979,358)	(4,450,907)
Cash paid to employees for services	(199,826)	(1,088,521)
Cash paid for interfund services used	-	(340,371)
Net Cash Provided (Used) by Operating Activities	19,652	1,275,355
Cash Flows from Non-Capital Financing Activities:		
Cash transfers in	-	1,343,904
Net Cash Provided (Used) by Non-Capital Financing Activities	-	1,343,904
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	-	(735,448)
Principal paid on capital debt	-	(162,503)
Interest paid on debt	-	(22,246)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(920,197)
Net Increase (Decrease) in Cash and Cash Equivalents	19,652	1,699,062
Cash and Cash Equivalents at Beginning of Year	39,308	7,511,296
Cash and Cash Equivalents at End of Year	\$ 58,960	\$ 9,210,358
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 19,625	\$ 188,942
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	-	572,973
(Increase) decrease in accounts receivable	-	(8,187)
(Increase) decrease in inventory	(12,206)	(12,206)
Increase (decrease) in accounts payable	12,233	12,537
Increase (decrease) in claims and judgments	-	521,296
Total Adjustments	27	1,086,413
Net Cash Provided (Used) by Operating Activities	\$ 19,652	\$ 1,275,355

Non-Cash Investing, Capital, and Financing Activities:
During fiscal year 2006-2007, there was no noncash investing, capital and financing activities.

CITY OF MANHATTAN BEACH

JUNE 30, 2007

AGENCY FUNDS

Agency funds are used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Special Assessment Redemption Fund is used to account for special assessment collections for debt service for the underground assessment bonds that the City remits to the fiscal agent.

Special Deposits Fund is used to account for 401(a) plan deposits, utility development deposits, art development fees and other miscellaneous deposits.

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2007

	Special Assessment Redemption	Special Deposits	Totals
Assets:			
Cash and investments	\$ 853,808	\$ 321,216	\$ 1,175,024
Receivables (net of allowance for uncollectibles):			
Accounts	26,127	-	26,127
Restricted assets:			
Cash with fiscal agent	<u>1,026,816</u>	<u>1,647,094</u>	<u>2,673,910</u>
Total Assets	<u>\$ 1,906,751</u>	<u>\$ 1,968,310</u>	<u>\$ 3,875,061</u>
Liabilities:			
Accounts payable	\$ -	\$ 22,500	\$ 22,500
401 (a) plan deposits	-	1,575,869	1,575,869
Art development fees	-	297,886	297,886
Other deposits	-	72,055	72,055
Due to bondholders	<u>1,906,751</u>	<u>-</u>	<u>1,906,751</u>
Total Liabilities	<u>\$ 1,906,751</u>	<u>\$ 1,968,310</u>	<u>\$ 3,875,061</u>

CITY OF MANHATTAN BEACH

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Special Assessment Redemption Fund</u>				
Assets:				
Cash and investments	\$ 241,807	\$ 1,130,250	\$ 518,249	\$ 853,808
Receivables (net of allowance for uncollectibles):				
Accounts	17,778	26,127	17,778	26,127
Restricted assets:				
Cash with fiscal agent	282,814	1,269,767	525,765	1,026,816
Total Assets	\$ 542,399	\$ 2,426,144	\$ 1,061,792	\$ 1,906,751
Liabilities:				
Accounts payable	\$ -	\$ 554,174	\$ 554,174	\$ -
Due to bondholders	542,399	1,866,231	501,879	1,906,751
Total Liabilities	\$ 542,399	\$ 2,420,405	\$ 1,056,053	\$ 1,906,751
<u>Special Deposits</u>				
Assets:				
Cash and investments	\$ 277,848	\$ 70,321	\$ 26,953	\$ 321,216
Restricted assets:				
Cash with fiscal agent	1,382,571	519,688	255,165	1,647,094
Total Assets	\$ 1,660,419	\$ 590,009	\$ 282,118	\$ 1,968,310
Liabilities:				
Accounts payable	\$ -	\$ 35,760	\$ 13,260	\$ 22,500
Due to other agencies	10,000	-	10,000	-
401 (a) plan deposits	1,299,484	276,385	-	1,575,869
Art development fees	266,859	57,820	26,793	297,886
Other deposits	84,076	243,302	255,323	72,055
Total Liabilities	\$ 1,660,419	\$ 613,267	\$ 305,376	\$ 1,968,310
Assets:				
Cash and investments	\$ 519,655	\$ 1,200,571	\$ 545,202	\$ 1,175,024
Receivables (net of allowance for uncollectibles):				
Accounts	17,778	26,127	17,778	26,127
Restricted assets:				
Cash with fiscal agent	1,665,385	1,789,455	780,930	2,673,910
Total Assets	\$ 2,202,818	\$ 3,016,153	\$ 1,343,910	\$ 3,875,061
Liabilities:				
Accounts payable	\$ -	\$ 589,934	\$ 567,434	\$ 22,500
401 (a) plan deposits	1,299,484	276,385	-	1,575,869
Art development fees	266,859	57,820	26,793	297,886
Other deposits	84,076	243,302	255,323	72,055
Due to bondholders	542,399	1,866,231	501,879	1,906,751
Total Liabilities	\$ 2,192,818	\$ 3,033,672	\$ 1,351,429	\$ 3,875,061