Notes to Financial Statements

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The City of Manhattan Beach, California (the City), was incorporated on December 12, 1912, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Manhattan Beach (the primary government) and its component unit, the Manhattan Beach Capital Improvements Corporation. The component unit is included in the reporting entity because of the significance of its operational or financial relationships with the City of Manhattan Beach. Separate financial statements are not prepared for the Manhattan Beach Capital Improvements Corporation.

Blended Component Unit

Manhattan Beach Capital Improvements Corporation - The Manhattan Beach Capital Improvements Corporation (the Corporation) is a nonprofit public benefits corporation, organized under the laws of the State of California in September 1996, pursuant to the Nonprofit Public Benefit Corporation Laws (Title I, Division 2, Part 2, Section 5110). The sole purpose of the Corporation is to issue debt for capital improvements. Certificates of participation are debt issued by the Corporation providing the holder an interest, i.e. the right to participate in the lease payments paid by the City to the Corporation. In September of 1996, this entity issued $4,615,000 of debt in the form of Certificates of Participation to fund specific projects related to the City's water and wastewater infrastructure. This debt is accounted for in the proprietary fund types within the Water and Wastewater Funds. In April of 2002, this entity also issued $9,535,000 of debt to pay the cost of refinancing existing ground lease commitments with the Beach Cities' Health District for the newly constructed Marine Avenue Sports Fields. This debt was structured as a variable rate demand Certificate of Participation. In January 2003, this entity issued $13,350,000 of fixed rate Certificates of Participation for the construction of a two-level downtown subterranean parking structure and outdoor plaza. This endeavor is commonly known as the Metlox Public Improvement project. The parking lot portion of the project was completed in January 2004, and the public plaza portion of the project was completed in November 2005. In November 2004, this entity issued fixed rate Certificates of Participation in the amount of $12,980,000 to contribute toward the full funding of the construction a new Police and Fire facility and adjoining City Hall plaza. This major project was completed in December 2007. Capital construction costs for the project were $38,404,048. There are no separately issued financial statements for this entity.

b. Accounting and Reporting Policies

Private–sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government–wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private–sector guidance for their business–type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private–sector guidance.

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

c. Description of Funds

The accounts of the City are organized and operated on the basis of funds, each of which is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein. These funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

In accordance with the City's municipal code and budget, several different types of funds are used to record the City's financial transactions. For financial reporting purposes, such funds have been categorized and are presented as follows:

Governmental Fund Types

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Capital Projects Funds - 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. In recent years the Underground Assessment District Fund was added to this category.

Proprietary Fund Types

Enterprise Funds - to account for operations where it is the stated intent that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where determination of net income is deemed appropriate.

Internal Service Funds - to account for insurance reserve, information systems, building maintenance and operations and fleet management services provided to the departments of the City on a continuing basis, which are financed or recovered primarily by charges to the user departments.

Fiduciary Fund Types

Pension Trust Funds - to account for resources that are required to be held in trust for the members and beneficiaries of supplemental retirement plans, single highest year plans, and post retirement health plans for firefighters and for police.

Agency Funds:

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

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

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

d. Basis of Accounting/Measurement Funds

Government-Wide Financial Statements

The City government-wide financial statements include a Statement of Net Assets and Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the City. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and infrastructure as well as long-term debt, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the benefit is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Government-wide financial statements do not provide information by fund; they simply distinguish between governmental and business activities. The City's Statement of Net Assets includes both current and noncurrent assets and liabilities. In prior years, the noncurrent assets and liabilities were recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, which are no longer reported.

Financial Statement Classification

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of capital assets reduce this category.

Restricted Net Assets

This category presents restrictions imposed by creditors, grantors, contributions or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

Unrestricted Net Assets

This category represents the net assets of the City, not restricted for any project or other purpose.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balances for all major governmental funds and aggregated nonmajor funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met the qualifications of GASB Statement No. 34.

All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the governmental fund balance sheet. Related operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental funds as the basis for recognizing revenues. Under the modified accrual basis of accounting, revenues are susceptible to accrual and consequently recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be readily determined, and “available” means that the transaction amount is collectible within the current period or soon thereafter (generally 60 days after year-end) to be used to pay liabilities of the current period. Revenues considered susceptible to accrual include property and sales taxes collected after year-end, earned and uncollected investment interest income, uncollected rents and leases and unbilled service receivables. Revenues from such items as license and permit fees, fines and forfeitures and general service charges are not susceptible to accrual because they are generally not measurable until received in cash.

The government reports unearned revenue on its balance sheet. Grant monies received before the City has a legal claim to them, such as grant funds received prior to incurring qualified expenses, are recorded as deferred revenue liabilities. In subsequent periods, the deferred revenue is removed once revenue recognition criteria are met and the City has established legal claim to the resources.

Governmental fund expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when they are due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

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

Proprietary Funds Financial Statements

Proprietary funds financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows. All proprietary fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. With this measurement focus, all assets and liabilities (current and long-term) resulting from the operations of these funds are included in the Statement of Net Assets. Accordingly, proprietary fund Statement of Net Assets presents assets and liabilities classified into their respective current and long-term categories.

The City's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service funds are consolidated into the governmental activities column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All proprietary funds are accounted for using the flow of economic resources and accrual basis of accounting. Their revenues are recognized when they are earned and become measurable; expenses are recognized when they are incurred. Unbilled service receivables are recorded as accounts receivable and as revenue when earned.

Fiduciary Funds

Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Net Assets. The fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support City programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. Since these assets are being held for the benefit of a third party, these funds are not incorporated into the government-wide statements.

Major Funds

The City reports the following major governmental funds:

The General Fund is used to account for all unrestricted resources except those required to be accounted for in another fund. This fund accounts for general citywide operations.

The Capital Improvement Capital Project Fund accounts for financial resources segregated for the acquisition or construction of major capital facilities, other than those financed by Enterprise, Internal Service Funds or other project specific funds.

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

The City reports the following major proprietary funds:

Water Fund is used to account for the operation of the City's water utility system. Revenues are generated from user fees, which are adjusted periodically to meet the costs of administration, operation, maintenance and capital improvements to the system. In fiscal year 1997, the City completed a comprehensive utility fee study and issued certificates of participation for the purpose of upgrading the City's water and wastewater systems.

Wastewater Fund is used to account for the maintenance and improvements of the City's sewer system. Revenues are derived from a user charge placed on the water bills. In fiscal year 1997, the City completed a comprehensive utility fee study and issued certificates of participation for the purpose of upgrading the City's water and wastewater system.

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.

Parking Fund is used to account for the general operations and maintenance of City parking lots and spaces. Revenues are generated from the use of these properties.

e. Property Tax Calculator

Property tax revenue is recognized on the basis of GASB Code Section P70, that is, in the fiscal year for which the taxes have been levied providing they become available. Available means due or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period.

The County of Los Angeles collects property taxes for the City. Tax liens attach annually as of 12:01 AM on the first day in January prior to the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property, as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, by December 10 and April 10, respectively. Unsecured personal property taxes become due on March 1 each year and are delinquent, if unpaid, on August 31.

f. Capital Assets

Capital assets, which include land, machinery and equipment, buildings and improvements, and infrastructure (roads, bridges, curbs and gutters, streets, walk-streets and sidewalks, parks and recreation improvements), are reported in the Governmental Activities column of the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than a certain cost and an estimated life of more than two years. Minimum capitalization costs are as follows: capital infrastructure assets, including buildings, improvements and infrastructure, $100,000; general capital assets, including machinery and equipment, $5,000. Such assets are recorded at historical cost and capitalized as acquired and/or constructed.

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

In 1995-1996, the City obtained an independent appraisal of all City owned land parcels and enterprise capital assets infrastructure related to its Water, Wastewater and Parking Funds. The appraisal was done to assure compliance with accounting standards and involved the estimation of historical costs for a variety of enterprise facilities.

In 2002-2003, the City contracted with an independent firm to obtain a valuation of its capital assets. This was done to specifically comply with the reporting requirements of GASB Statement No. 34. For purposes of this study, capital assets were defined to include land, buildings and improvements, City owned utilities, streets and roadways, and parks and recreation facilities and improvements. This significant valuation project entailed many steps covering several months of work. Key steps to the project included: obtaining an inventory of all material City owned assets, establishing acquisition dates, deriving historical costs, developing and recommending useful lives, and constructing a basis for depreciation in arriving at a June 30, 2006, net book value. The completion of this valuation, along with the other reporting requirements of GASB Statement No. 34, presented a material change in accounting principle and the value of capital assets reported in the prior fiscal year.

Capital assets are reported net of accumulated depreciation on the Statement of Net Assets. Depreciation is provided for on the straight-line method over the estimated useful lives of the assets as follows:

Asset	Years
Equipment	5 - 20
Vehicles	3 - 20
Buildings/Improvements	40- 100
Water and Sewer Systems	30 - 50
Other Infrastructure	15 -100

Gifts or contributions of capital assets are recorded at fair market value when received.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on the invested proceeds over the same period.

g. Other Accounting Policies

Cash and Cash Equivalents - For purpose of the Statement of Cash Flows, the City considers cash and cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling cash and investments of all funds except for funds in its 401(a) plan; 125 medical flex plan; outstanding Water and Wastewater; Marine Avenue Sports Field; and Metlox, Police & Fire Facility bonded debt, which are held by outside trustees. City employees individually direct their investments in the 401(a) plan.

Investments - Investments are shown at fair value, in accordance with GASB Statement No. 31. Fair value is based upon quoted market prices.

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.

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

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 $5,305,317 and $2,438,876 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. At termination, employees are eligible to convert 50% of unused sick time to service credit; however, sworn fire safety personnel, upon service retirement, may opt to cash out 50% of the value of unused sick leave.

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, 2008, the total accrued liability for this benefit amounted to $27,058, 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 6).

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.

Note 2: Budgets and Budgetary Accounting (Continued)

b. Excess Expenditures

For the year ended June 30, 2008, the following funds had expenditures in excess of budget:

Fund	Expenditures	Appropriations	Excess
General Fund:			
Public Safety	$ 32,294,088	$ 32,183,054	$ 111,034
Culture and Recreation	5,785,612	5,773,541	12,071
Street Lighting & Landscaping			
Public Works	584,206	560,541	23,665
Underground Assessment District			
Public Works	148,283	-	148,283

c. Deficit

The Insurance Reserve Internal Service Fund has a net assets deficit of $408,914. It is anticipated that this deficit will be reduced by assessing additional charges to other departments in future years.

Note 3: Cash and Investments

As of June 30, 2008, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	$ 40,390,733
Business-type activities	14,967,048
Fiduciary funds	4,289,766
Total Cash and Investments	$ 59,647,547

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, 2008, the carrying amount of the City's deposits was ($527,381) and the bank balance was $957,990. The $1,485,371 difference represents outstanding checks and other reconciling items.

Note 3: Cash and Investments (Continued)

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.

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.

Note 3: Cash and Investments (Continued)

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 $13,150,000 whose pro-rata share of fair value was estimated by the State Treasurer to be $13,149,345.

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, 2008, was $1,512,966.

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, 2008, the fair value of investments exceeded the book value by $495,906.

Note 3: Cash and Investments (Continued)

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, 2008, the City's investment in medium-term notes consisted of investments with Bank of America, Berkshire Hathaway, Citigroup, Fleet Financial Group, General Electric Capital, Gillette Company, Morgan Stanley Corp and Wachovia Bank. At June 30, 2008, 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, 2008, the City's investments in external investment pools and money market mutual funds are unrated.

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. The City does not have a policy for custodial credit risk.

As of June 30, 2008, 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, 2008, 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, 2008, the City has not invested more than 5.65% of its total investments in Citigroup and 7.75% of its total investments in General Electric Capital. Percent of total of any one of the other issuers is less than 5%. 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.

Note 3: Cash and Investments (Continued)

As of June 30, 2008, the City had the following investments and original maturities:

	Remaining Investment Maturities: 6 months or less	6 months to 1 year	1 to 3 years	More than 3 years	Fair Value
Pooled Investments:					
Local Government Fund	$ 13,149,345	$ -	$ -	$ -	$ 13,149,345
US Treasury and agency notes	4,009,060	4,567,045	9,707,550	8,003,760	26,287,415
Medium-term notes	4,000,050	2,991,970	3,467,930	3,001,590	13,461,540
	$ 21,158,455	$ 7,559,015	$ 13,175,480	$ 11,005,350	$ 52,898,300
Investment with Fiscal Agents:					
Police & Fire Certificates of Participation					$ 1,099,170
Utility Undergrounding					1,646,524
Metlox certificates of participation					1,158,593
Marine certificates of participation					310,520
Police & Fire pension bonds					983,009
Water/wastewater revenue bonds					338,595
SBRPCA revenue bonds					214,712
					5,751,123
Demand deposits					(527,381)
Other deposits					10,601
Petty cash					1,938
					(514,842)
Other Funds and Deposits:					
401(a) employee plan					1,512,966
					1,512,966
Grand Total					$ 59,647,547

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, 2008, are presented below:

Transfers Out	Transfers In: General Fund	Nonmajor Governmental Funds	Parking Fund	Internal Service Funds	Transfers In Totals
General Fund	$ -	$ 189,967	$ -	$ 18,017	$ 207,984
Capital Improvement Fund	-	-	55,850	-	55,850
Nonmajor proprietary funds	25,079	-	-	-	25,079
Transfers Out Totals	$ 25,079	$ 189,967	$ 55,850	$ 18,017	$ 288,913

Note 4: Interfund Transactions (Continued)

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

- The County Parking Lot fund transferred $25,079 to the General fund for recreation purposes.
- The General fund transferred $189,967 to the Street Lighting fund to relieve a deficit fund balance.
- The Capital Improvement Fund transferred $55,850 to the Parking Fund for surveillance equipment.
- The General fund transferred $18,017 to the Insurance Reserve fund to alleviate ongoing deficits.

Due To/From Other Funds

	Due To Other Funds:		
	Federal and State Grants	Underground Assessment Improvement	Total
Due From Other Funds:			
General Fund	$ 20,000	$ 110,395	$ 130,395

The amount due to the General Fund cash consist of the elimination of a cash deficit in the Federal and State Grants fund for grant money they have not yet received and the elimination of a cash deficit in the Underground Assessment Improvement Fund for amounts not received from restricted cash in that fund held by trustee.

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, 2008:

	Beginning Balance 7/1/2007	Adjustments (to beginning balance)	Adjusted Beginning Balance	Increases additions	Decreases (deletions)	Transfers	Ending Balance 6/30/2008
Governmental Activities:							
Land	$ 33,634,566	$ -	$ 33,634,566	$ -	$ -	$ -	$ 33,634,566
Investment in Joint Venture (RCC)	1,855,268	(1,855,268)	-	-	-	-	-
Construction-in-progress							
Street / Roadways	7,508,697	-	7,508,697	1,866,006	-	(7,343,279)	2,031,424
Recreation	355,290	-	355,290	926,461	-	(1,137,335)	144,416
	9,719,255	(1,855,268)	7,863,987	2,792,467	-	(8,480,614)	2,175,840
Total Capital Assets, Not Being Depreciated	43,353,821	(1,855,268)	41,498,553	2,792,467	-	(8,480,614)	35,810,406
Buildings and Structures	43,215,780	-	43,215,780	-	-	-	43,215,780
Machinery and Equipment	5,676,322	-	5,676,322	323,924	(130,427)	-	5,869,819
Vehicles	6,505,766	-	6,505,766	415,975	(343,549)	-	6,578,192
Infrastructure	-	-	-	-	-	-	-
Street / Roadways	37,952,553	-	37,952,553	-	-	7,343,279	45,295,832
Parks and Recreation	10,885,500	-	10,885,500	-	-	1,137,335	12,022,835
Investment in Joint Venture (RCC)	-	2,312,324	2,312,324	94,849	(164)	-	2,407,009
Total Capital Assets, Being Depreciated	104,235,921	2,312,324	106,548,245	834,748	(474,140)	8,480,614	115,389,467
Buildings and Structures	(2,619,812)	-	(2,619,812)	(862,106)	-	-	(3,481,918)
Machinery & equipment	(3,109,046)	-	(3,109,046)	(490,044)	126,820	-	(3,472,270)
Vehicles	(3,382,055)	-	(3,382,055)	(588,035)	312,470	-	(3,657,620)
Infrastructure							
Street / Roadways	(17,603,610)	-	(17,603,610)	(1,219,898)	-	-	(18,823,508)
Parks and Recreation	(3,522,622)	-	(3,522,622)	(201,645)	-	-	(3,724,267)
Investment in Joint Venture	-	(457,056)	(457,056)	(109,235)	93	-	(566,198)
Total Accumulated Depreciation	(30,237,145)	(457,056)	(30,694,201)	(3,470,963)	439,383	-	(33,725,781)
Total Capital Assets, Being Depreciated, Net	73,998,776	1,855,268	75,854,044	(2,636,215)	(34,757)	8,480,614	81,663,686
Governmental Activities Capital Assets, Net	$ 117,352,597	$ -	$ 117,352,597	$ 156,252	$ (34,757)	$ -	$ 117,474,092

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	1,563,897	-	1,563,897	2,308,911	(15,907)	(2,247,213)	1,609,688
Total Capital Assets, Not Being Depreciated	3,321,331	-	3,321,331	2,308,911	(15,907)	(2,247,213)	3,367,122
Capital assets, being depreciated:							
Buildings and structures - parking	16,457,886	(271,931)	16,185,955	-	(512,732)	1,091,408	16,764,631
Machinery and equipment - parking	738,586	-	738,586	-	-	66,944	805,530
Water	19,766,510	-	19,766,510	-	-	508,443	20,274,953
Storm water	6,729,596	-	6,729,596	-	-	141,807	6,871,403
Wastewater	9,573,127	-	9,573,127	-	-	438,611	10,011,738
Total Capital Assets, Being Depreciated	53,265,705	(271,931)	52,993,774	-	(512,732)	2,247,213	54,728,255
Less Accumulated Depreciation:							
Buildings and structures - parking	(707,649)	51,667	(655,982)	(480,373)	512,732	-	(623,623)
Machinery and equipment - parking	(425,615)	-	(425,615)	(25,802)	-	-	(451,417)
Water	(8,258,569)	-	(8,258,569)	(359,405)	-	-	(8,617,974)
Storm water	(2,621,199)	-	(2,621,199)	(150,774)	-	-	(2,771,973)
Wastewater	(4,736,312)	-	(4,736,312)	(142,508)	-	-	(4,878,820)
Total Accumulated Depreciation	(16,749,344)	51,667	(16,697,677)	(1,158,862)	512,732	-	(17,343,807)
Total Capital Assets, Being Depreciated, Net	36,516,361	(220,264)	36,296,097	(1,158,862)	-	2,247,213	37,384,448
Business-Type Activities Capital Assets, Net	$ 39,837,692	$ (220,264)	$ 39,617,428	$ 1,150,049	$ (15,907)	$ -	$ 40,751,570

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

Governmental Activities:	
General government	$ 174,630
Public safety	1,537,542
Public works	1,502,212
Culture and recreation	256,579
Total Depreciation Expense - Governmental Activities	$ 3,470,963
Business-Type Activities:	
Water	$ 359,405
Storm water	150,774
Wastewater	142,508
Parking	506,175
Total Depreciation Expense - Business-Type Activities	$ 1,158,862

Note 6: Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008:

Governmental Activities:	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due in One Year
Long-term Debt:					
Capital Lease	$ 558,190	$ -	$ (168,182)	$ 390,008	$ 174,060
Marine Ave Park COP	8,580,000	-	(205,000)	8,375,000	210,000
Police Fire COP	12,740,000	-	(245,000)	12,495,000	250,000
2001 South Bay Revenue Bond	1,830,000	-	(80,000)	1,750,000	80,000
Pension Obligation Bonds	6,800,000	-	(705,000)	6,095,000	695,000
Other:					
Supplemental Leave Allowance	35,595	-	(8,537)	27,058	-
Compensated Absences	2,226,775	1,936,237	(1,800,799)	2,362,213	338,314
Workers Compensation Claims	4,824,658	1,433,408	-	6,258,066	4,446,141
General Liablity Claims	1,138,411	347,716	-	1,486,127	859,176
Total governmental	$ 38,733,629	$ 3,717,361	$ (3,212,518)	39,238,472	$ 7,052,691
	Unamortized premium			161,866	
				$ 39,400,338	
Business-Type Activities:					
Long-term Debt:					
Water Fund COP	$ 2,560,350	$ -	$ (70,376)	$ 2,489,974	$ 73,735
Wastewater Fund COP	1,259,650	-	(34,624)	1,225,026	36,265
Metlox Parking COP	12,570,000	-	(270,000)	12,300,000	280,000
Other long term liabilities:					
Compensated Absences	81,579	84,688	(62,101)	104,166	17,340
Total business type	$ 16,471,579	$ 84,688	$ (437,101)	$ 16,119,166	$ 407,340

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
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	$ 255,288	$ 9,997	$ 265,285	$ 134,720	$ 5,474	$ 140,194

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
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
2013	245,000	298,384	543,384
2014-2018	1,360,000	1,332,276	2,692,276
2019-2023	1,630,000	1,025,129	2,655,129
2024-2028	1,935,000	659,094	2,594,094
2029-2033	2,310,000	222,621	2,532,621
Total	$ 8,375,000	$ 4,828,515	$ 13,203,515

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.

Note 6: Long-Term Liabilities (Continued)

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
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
2013	285,000	532,050	817,050
2014-2018	1,580,000	2,495,088	4,075,088
2019-2023	1,925,000	2,151,406	4,076,406
2024-2028	2,390,000	1,684,531	4,074,531
2029-2033	3,050,000	1,027,500	4,077,500
2034-2036	2,220,000	225,500	2,445,500
Total	$ 12,495,000	$ 10,330,164	$ 22,825,164

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, 2008, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2013	50,000	58,152	108,152
2014-2018	280,000	258,690	538,690
2019-2023	360,000	194,060	554,060
2024-2028	440,000	112,696	552,696
2029-2031	315,000	21,075	336,075
Total	$ 1,750,000	$ 905,884	$ 2,655,884

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 in amounts ranging from $695,000 to $1,095,000, bearing interest at 5.011%.

Note 6: Long-Term Liabilities (Continued)

The annual requirements to amortize the 2007 Taxable Pension Obligation Bonds outstanding at June 30, 2008, were as follows:

Year Ending June 30,	Principal	Interest	Total
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
2013	1,010,000	118,510	1,128,510
2014-2015	1,860,000	84,936	1,944,936
Totals	$ 6,095,000	$ 1,121,086	$ 7,216,086

f. Compensated Absences

At June 30, 2008, the total citywide accrued liability for compensated absences amounted to $2,466,379 which is comprised of $2,129,436 and $336,943 of vested vacation and sick leave, respectively. $2,362,213 of this compensated leave liability is related to general government services with the remaining $104,166 related to business type activities. The governmental activities liability is generally liquidated by the General Fund and the business type activities liabilities are liquidated by the corresponding proprietary funds.

g. Workers' Compensation Claims

As of June 30, 2008, reserves for open workers compensation claims have been established in accordance with analysis by a third party claims administrator. The value of these claims is $4,446,141. In addition, reserves of $1,811,925 have been set aside for incurred but not reported claims.

h. General Liability Claims

As of June 30, 2008, reserves for open general liability claims have been established in accordance with an analysis by a third party claims administrator. The value of these claims is $859,176. In addition, reserves of $626,951 have set aside for incurred but not reported claims.

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.

Note 6: Long-Term Liabilities (Continued)

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2008:

Fiscal Year Ending June 30,	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
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
2013	90,484	122,375	212,859	44,516	60,206	104,722
2014-2018	552,955	524,861	1,077,816	272,045	258,223	530,268
2019-2023	743,976	340,217	1,084,193	366,024	167,382	533,406
2024-2028	784,191	94,465	878,656	385,809	46,475	432,284
Total	$ 2,489,974	$ 1,617,803	$ 4,107,777	$ 1,225,026	$ 795,934	$ 2,020,960

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 located 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 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.

As of June 30, 2008, annual debt service requirements to maturity for the Metlox Parking Facility (COP) are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2013	325,000	532,159	857,159
2014-2018	1,830,000	2,452,543	4,282,543
2019-2023	2,285,000	2,005,365	4,290,365
2024-2028	2,930,000	1,392,750	4,322,750
2029-2033	3,755,000	582,000	4,337,000
Total	$ 12,300,000	$ 9,205,153	$ 21,505,153

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, 2008, are presented below:

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Total Fund Equity	$ 18,437,158	$ 6,262,184	$ 5,865,437	$ 30,564,779
Reserved:				
Encumbrances	$ 459,705	$ -	$ 40,925	$ 500,630
Prepaids	35,941	-	-	35,941
Debt Service	1,355,530	817,076	-	2,172,606
Continuing capital projects	-	1,814,830	2,827,474	4,642,304
Total Reserved	1,851,176	2,631,906	2,868,399	7,351,481
Unreserved	16,585,982	3,630,278	2,997,038	23,213,298
Designated:				
Financial policy	9,651,953	-	-	9,651,953
Economic uncertainty	4,000,000	-	-	4,000,000
Accrued benefits	-	-	-	-
Loan Program	-	1,023,087	-	1,023,087
Total Designated	13,651,953	1,023,087	-	14,675,040
Undesignated	2,934,029	2,607,191	2,997,038	8,538,258

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

The City's Enterprise Fund restrictions and City Council designations at June 30, 2008, are presented below:

	Water Fund	Waste Water Fund	Parking Fund	Refuse Fund	Nonmajor Enterprise Funds
Total Net Assets	$ 18,142,885	$ 5,856,705	$ 7,714,000	$ 1,024,485	$ 7,320,626
Restricted:					
Debt service	$ 227,075	$ 111,485	$ 871,501	$ -	$ -
BID	-	-	555,569	-	-
Total Restricted	227,075	111,485	1,427,070	-	-
Investment in Net Capital Assets	10,818,117	4,174,434	5,636,937	-	4,107,082
Unrestricted	7,097,693	1,570,786	649,993	1,024,485	3,213,544
Designations:					
Continuing CIPs	1,248,151	783,458	85,000	-	99,930
Financial policy	2,463,000	405,000	203,000	-	84,000
Total Designated	3,711,151	1,188,458	288,000	-	183,930
After Designations	3,386,542	382,328	361,993	1,024,485	3,029,614

Note 9: Retirement Plans and Other Post Employment Benefits

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.

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

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, 2005, determined the required employer contribution rate for fiscal year 2007-2008 was 7.395% 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.

Assumptions

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

Valuation Date	June 30, 2005
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.

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.

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. In addition, the City has received valuation reports of June 30, 2006 and June 30, 2007 which enable us to present additional years of funding progress. The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Funding Progress for PERS
Miscellaneous Plan
Most Recent Available

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio (AVA)	Funded Ratio Market Value	Annual Covered Payroll	Unfunded Liability as % of Payroll
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%
6/30/2007	49,949,997	50,183,704	(233,707)	100.5%	106.1%	10,769,106	-2.2%

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, 2005, determined the required employer contribution rate for fiscal year 2007-2008 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.

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

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 of 7.75%. Debt service requirements for these pension bonds are presented in footnote 6e.

Annual Pension Cost

For fiscal year 2007-2008, the City of Manhattan Beach’s annual pension payments was $2,843,321 (a decrease of 932,900 attributable to safety side fund payoff) for the Police, Fire and Miscellaneous Plans combined, and was equal to the City’s required contributions. The payments by group are as follows: Miscellaneous - $832,511, Fire - $737,624, Police - $1,273,186). The City also contributed $1,686,999 for the 2007-2008 fiscal year on behalf of the employees. Employee payments by group are as follows: Miscellaneous – $788,150, Fire - $382,093, Police – $536,756. The City’s payroll for employees covered by the plans for the year ended June 30, 2008, was $21,246,501. The total payroll for the year was $26,111,367.

Three-Year Trend Information for PERS Police Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 1,912,600	95.17%	$ (434,535)
6/30/2007	1,870,202	342.52%	(4,970,161)
6/30/2008	1,702,272	74.79%	(4,541,075)

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

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, 2008, was as follows:

	Police
Annual required contributions (ARC)	$ 1,273,186
Interest on net pension obligation	(359,170)
Amortization of net pension obligation	788,256
Annual pension cost	1,702,272
Actual contributions made in fiscal year	1,273,186
Increase (Decrease) in NPO	429,086
NPO at Beginning of Year	(4,970,161)
NPO at End of Year	$ (4,541,075)

Three-Year Trend Information for PERS Fire Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 1,024,892	97.12%	$ (244,424)
6/30/2007	1,087,358	297.21%	(2,388,841)
6/30/2008	987,941	74.66%	(2,138,524)

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, 2008, was as follows:

	Fire
Annual required contributions (ARC)	$ 737,624
Interest on net pension obligation (NPO)	(171,286)
Amortization of net pension obligation	421,603
Annual pension cost	987,941
Actual contributions made in fiscal year	737,624
Increase (Decrease) in NPO	250,317
NPO at Beginning of Year	(2,388,841)
NPO at End of Year	$ (2,138,524)

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

Annual Pension Cost and Net Pension Obligation Miscellaneous Plan

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2008, was as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 637,762	100%	$ -
6/30/2007	772,796	100%	-
6/30/2008	832,511	100%	

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2008, was as follows:

	Miscellaneous
Annual required contributions (ARC)	$ 832,511
Interest on net pension obligation (NPO)	-
Amortization of net pension obligation	-
Annual pension cost	832,511
Actual contributions made in fiscal year	832,511
Increase (Decrease) in NPO	-
NPO at Beginning of Year	-
NPO at End of Year	$ -

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.

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

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, 2008, was as follows:

Retirees and beneficiaries receiving benefits	
Management/Confidential	6

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
6/30/2008	193,627	189,506	(4,121)	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
6/30/2008	N/A	N/A

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

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, 2008
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%

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, 2008, was as follows:

Reitrees receiving benefits:	
Management Confidential	4
Fire	1
Police	5
	10

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.

Note 9: Retirement Plans and Other Post Employment Benefits (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
6/30/2008	461,030	432,935	(28,095)	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
6/30/2008	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, 2008
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%

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

2. State of California Mandated Contribution to Retirees

In addition to the City plan as described above, the City makes a contribution to retirees who elect to purchase insurance through CALPERS. This contribution is mandated by Assembly Bill 2544 and is adjusted annually by CALPERS. For fiscal year 2008, the City paid $32,969 for the medical benefit. Plan members receiving benefits paid $351,252.

These plans are financed via City actuarially determined contributions to a trust fund managed by CALPERS. CALPERS has dual independent capacities – as a provider of medical plans and as a trustee. In its capacity as a trustee, CALPERS will be referred to as CERBT (California Employees' Retirement Benefit Trust). City payments to employees and CALPERS will be reimbursed by payments from CERBT in fiscal 2009.

Annual OPEB Cost and Net OPEB Obligation

In the fiscal year ending June 30, 2008, the City conducted an actuarial analysis of these two plans in order to be in conformance with GASB 45.

The City's annual post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. An actuarial valuation of the OPEB programs was performed with an effective date of July 1, 2007. Initially, the City elected to amortize the unfunded liability over a 10 year period; however at fiscal year end, the unfunded accrued liability plus interest in addition to the normal cost was paid to CERBT. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation: The required contribution for an amortization period of ten years was $841,241 plus normal cost of $269,000.

Annual required contribution	$ 1,110,241
Annual OPEB cost	1,110,241
Actual contributions made	6,420,450
Increase (decrease) in OPEB obligation	(5,310,209)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2007-08and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contribution	Net OPEB Obligation
06/30/06	N/A	N/A	N/A
06/30/07	N/A	N/A	N/A
06/30/08	$ 1,110,241	$ 6,420,450	$ (5,310,209)

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

2. State of California Mandated Contribution to Retirees

In addition to the City plan as described above, the City makes a contribution to retirees who elect to purchase insurance through CALPERS. This contribution is mandated by Assembly Bill 2544 and is adjusted annually by CALPERS. For fiscal year 2008, the City paid $32,969 for the medical benefit. Plan members receiving benefits paid $351,252.

These plans are financed via City actuarially determined contributions to a trust fund managed by CALPERS. CALPERS has dual independent capacities – as a provider of medical plans and as a trustee. In its capacity as a trustee, CALPERS will be referred to as CERBT (California Employees' Retirement Benefit Trust). City payments to employees and CALPERS will be reimbursed by payments from CERBT in fiscal 2009.

Annual OPEB Cost and Net OPEB Obligation

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The City's annual post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. An actuarial valuation of the OPEB programs was performed with an effective date of July 1, 2007. Initially, the City elected to amortize the unfunded liability over a 10 year period; however at fiscal year end, the unfunded accrued liability plus interest in addition to the normal cost was paid to CERBT. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation: The required contribution for an amortization period of ten years was $841,241 plus normal cost of $269,000.

Annual required contribution	$ 1,110,241
Annual OPEB cost	1,110,241
Actual contributions made	6,420,450
Increase (decrease) in OPEB obligation	(5,310,209)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2007-08and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contribution	Net OPEB Obligation
06/30/06	N/A	N/A	N/A
06/30/07	N/A	N/A	N/A
06/30/08	$ 1,110,241	$ 6,420,450	$ (5,310,209)

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

3. Funded Status and Funding Programs

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The basis for actuarial accrued liability are fixed payments for a period subsequent to retirement. These amounts are not related to payroll and therefore the unfunded actuarial accrued liability as percent of payroll has no meaning. The total contribution is fixed for each employee group. Since an actuarial evaluation is required every two years, the same actuarial accrued liability is presented for both fiscal years. Even though the actuarial valuation was effective July 1, 2007, the same results are used for June 30, 2008.

Type of Valuation	Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Underfunded Liability	Funded Ratio	Covered Payroll	Percent of Covered Payroll	Interest Rate
Actual	6/30/2007	$ 5,709,000	$ -	$ 5,709,000	0.0%	N/A	N/A	7.75%
	6/30/2008	5,709,000	6,420,450	(711,450)	112.5%	N/A	N/A	7.75%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), which is the actuarial rate of return used by CALPERS for assets in all of their plans, an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 5% after ten years, and a fixed population of active participants. The actuarial value of assets was equal to the amount deposited with CALPERS at June 30, 2008. The number of active plan participants is 269.

Note 9: Retirement Plans and Other Post Employment Benefits (Continued)

4. 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.

   The PARS plan is a defined contribution pension plan. Benefits and funding requirements are determined by PARS' governing board. 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 $1,261,280. The amount of employee contribution was $47,299, and employer contribution was $47,299.

Note 10: 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 22 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 $100,000,000. 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, 2008, the amount of these liabilities was $7,744,193. The amount represents an estimate of $5,305,317 for reported claims through June 30, 2008, and $2,438,876 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, 2008, resulted from the following:

Year	Liability Beginning of Year	Current Year Claims and Increases in Estimates	Payments and Decreases In Estimates	Liability End of Year
2007	$ 5,441,774	$ 3,261,371	$ (2,740,076)	$ 5,963,069
2008	5,963,069	4,241,863	(2,460,739)	7,744,193

Note 10: 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, 2008, which can be obtained from Independent Cities Risk Management Authority, 3780 Kilroy Airport Way, Suite 470, Long Beach, California 90806.

Note 11: 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, 2007, was 22.7%.

Summarized audited financial information for SBRPCA at June 30, 2007*, is presented below:

Statement of Net Assets	
Current assets	$ 2,438,177
Capital assets	8,112,164
Total Assets	10,550,341
Current liabilities	359,877
Noncurrent liabilities	215,691
Total Liabilites	575,568
Total Net Assets	$ 9,974,773

Statement of Activities	
Operating Revenues	$ 6,382,252
Operating Expenses	(6,436,083)
Excess of Expenditures Over Revenues	(53,831)
Non operating revenues (expenses)	134,723
Net Assets - June 30, 2006	9,893,881
Net Assets - June 30, 2007	$ 9,974,773

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

Note 11: 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, 2007*, is presented below:

Statement of Net Assets	
Assets	
Current assets	$ 5,219,319
Capital assets	843,506
Totals Assets	$ 6,062,825
Liabilities	
Current liabilities	$ 1,305,542
Noncurrent liabilities	563,955
Totals liabilities	1,869,497
Total Net Assets	$ 4,193,328
Statement of Activities	
Revenues	$ 5,812,401
Expenditures	(4,242,951)
Excess of Expenditures Over Revenues	1,569,450
Net Assets - June 30, 2006	2,623,878
Net Assets - June 30, 2007	$ 4,193,328

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

Note 12: 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, 2008, was $1,512,966.

As of June 30, 2008, the following balances of assets and liabilities were present:

	Market Value 401(a) Plan
Total Assets	$ 1,512,966
Liability to Plan Participants	$ 1,512,966

Note 13: 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 14: 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.

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.

Note 15: Fund Balance and Net Assets Restatement

Beginning fund equity has been restated as follows:	
Business Type Activities - Enterprise Funds	
Parking - Beginning net assets as originally stated	$ 7,250,961
To record deletion of parking lot to make way for Metlox Parking Structure	(220,264)
Parking - Beginning net assets as restated	$ 7,030,697

Note 16: Subsequent Event – Financial Concerns Relating to the California Economy

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

> "The California and national economies faced considerable headwinds -a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally."

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component units operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effect of these on its operations and costs.