



Financial Section



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach, California, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manhattan Beach's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Gas Tax Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2010, on our consideration of the City of Manhattan Beach's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

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

Lance, Solt & Luythard, LLP

January 5, 2010

CITY OF MANHATTAN BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Manhattan Beach, we offer our readers of these financial statements this narrative overview and analysis of the financial activities of the City of Manhattan Beach for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to ix of this report.

FINANCIAL HIGHLIGHTS

Government Wide Financial Basis

- As of June 30, 2009, the City's total net assets citywide (including all governmental and business type activities) totaled \$171,082,327. This is a decrease from the prior fiscal year of \$36,440, or .02%.
 - Governmental net assets increased by \$582,323 (.4%) to \$131,642,388.
 - Business type activity net assets decreased by \$618,763 (1.5%).
- Unrestricted net assets, which may be used to meet the government's on-going obligations within certain parameters and requirements, totaled \$40,633,173. This is a decrease of \$927,999 (2.2%) from FY 2007-2008 levels. The decline is primarily due to the use of cash to fund water and wastewater infrastructure and rate studies.
- Citywide capital assets, net of depreciation, increased by \$266,853 from the prior year, the result of infrastructure and water enterprise capital expenditures.
- The City's debt decreased by \$2.0 million during FY 2008-2009. This decrease is attributable to the scheduled principal pay down of issued bonds and leases by both governmental activities and business type activities.
- Long term insurance claim reserves were decreased by \$255,713 primarily attributable to an improvement in the recent high level of workers compensation claims activity.

Fund Financial Basis – Governmental Funds

- As of June 30, 2009, the General Fund balance was \$18,329,769. Fund expenditures exceeded revenues by \$99,672. The imbalance was primarily caused by the planned contribution of \$520,000 in support of Manhattan Beach schools.
- Total Governmental Fund revenue totaled \$54,756,665, a decrease of 3.5% (\$1,967,683) from the prior year. Two notable revenues from the prior year that were not repeated this year include revenue from the City's Pension Fund transferred to the General Fund (\$1.1 million) to contribute to the retiree medical benefits pre-payment, and \$423,301 from the Insurance Fund to reimburse the General Fund for salary continuation payments for employees out on injuries (offset by improved experience in the Insurance Fund).
- Governmental Fund expenditures totaled \$55,302,359, down \$5,207,556 (8.6%) from FY 2007-2008. In the prior year, there was a one-time expenditure (\$4.72 million) to pre-fund post employment benefits which accounts for most of the decrease.
- General Fund transfers-out totaled \$170,953. The entire amount was transferred to the Street Lighting Fund to relieve a deficit from operations. General Fund transfers-in equaled \$160,230.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

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

Reporting on the City as a Whole

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

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

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

The government wide statement of activities has two components:

Governmental Activities

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

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

Business Type Activities

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

The government-wide financial statements can be found on pages 17 to 19 of this report.

Reporting on the City's Most Significant Funds

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 22 to 40 of this report.

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

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

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

The combining statements referred to earlier in connection with non-major governmental funds, proprietary and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 82 to 111 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42 to 80 of this report.

The City as Trustee

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Manhattan Beach, net assets totaled \$171,082,327 at June 30, 2009.

By far, the largest portion of the City's net assets (70.5%) reflects its investment in capital assets (e.g., land, infrastructure, buildings and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

City of Manhattan Beach Net Assets

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current Assets	\$ 43,050,732	\$ 42,156,000	\$ 14,118,700	\$ 14,809,449	\$ 57,169,432	\$ 56,965,449
Non-Current Assets	\$ 131,223,353	\$ 132,435,624	\$ 42,655,030	\$ 42,861,242	173,878,383	175,296,866
Total Assets	174,274,085	174,591,624	56,773,730	57,670,691	231,047,815	232,262,315
Current Liabilities	\$ 11,537,169	\$ 11,183,912	\$ 2,029,199	\$ 1,900,163	13,566,368	13,084,075
Non-Current Liabilities	\$ 31,094,528	\$ 32,347,647	\$ 15,304,592	\$ 15,711,826	46,399,120	48,059,473
Total Liabilities	42,631,697	43,531,559	17,333,791	17,611,989	59,965,488	61,143,548
Invested in Capital Assets						
Net of Related Debt	\$ 95,603,960	\$ 94,464,084	\$ 24,967,604	\$ 24,736,570	120,571,564	119,200,654
Restricted	\$ 8,065,813	\$ 8,591,311	\$ 1,811,777	\$ 1,765,630	9,877,590	10,356,941
Unrestricted	\$ 27,972,615	\$ 28,004,670	\$ 12,660,558	\$ 13,556,502	40,633,173	41,561,172
Total Net Assets	\$ 131,642,388	\$ 131,060,065	\$ 39,439,939	\$ 40,058,702	\$ 171,082,327	\$ 171,118,767

Net assets of the City's *Governmental* activities amounted to \$131.64 million, an increase over the prior year of \$582,323. Of the \$131.64 million, \$95.6 million is invested in capital assets net of related debt such as land, buildings, machinery, infrastructure, equipment and other improvements; \$8.07 million is restricted for debt service or for Special Revenue Fund resources that are subject to external restrictions on use. The balance of unrestricted net assets (\$27.97 million) is investment in economic resources available to the City. A significant portion of this remaining balance is subject to capital project designations and policy reserves displayed in financial Note 8.

Net assets of the City's *Business-type* activities totaled \$39.44 million. This represents a decrease from FY 2007-2008 of \$618,763. \$24.97 million is invested in capital assets (land, buildings, machinery, equipment, etc.) net of related debt, while \$1.81 million is reserved for debt service and for business improvement district use. \$12.66 million is investment in economic resources available to the City.

The City's total change in net assets amounts to a decrease of \$36,440. The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ending June 30, 2008 and June 30, 2009:

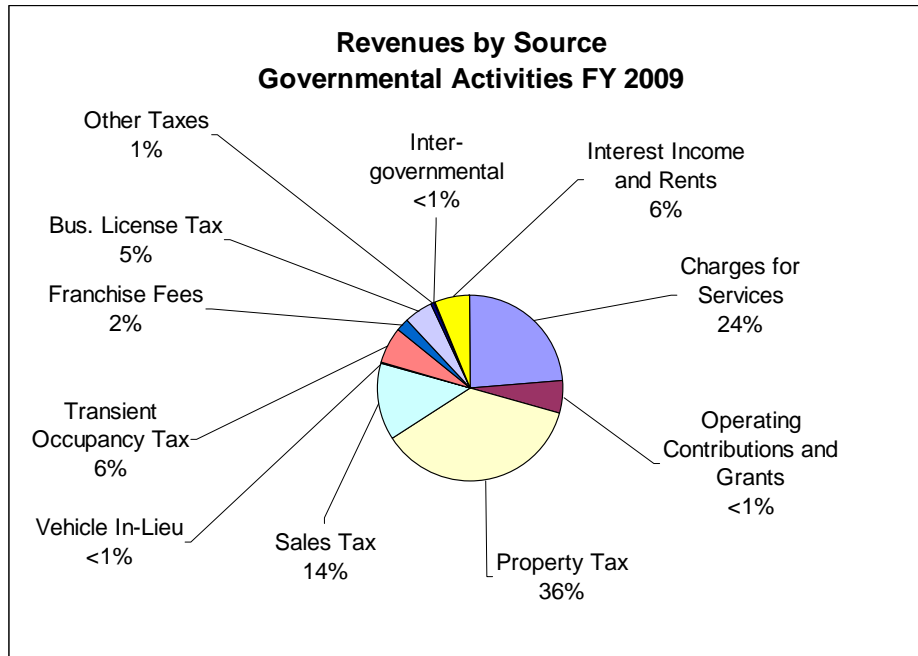
City of Manhattan Beach Changes in Net Assets

	Governmental Activities		Business -Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program Revenues:						
Charges for Services	\$ 13,122,543	\$ 13,491,412	\$ 15,680,170	\$ 14,357,640	\$ 28,802,713	\$ 27,849,052
Operating Contributions and Grants	2,078,062	2,250,606	-	90,853	2,078,062	2,341,459
Capital Contributions and Grants	1,105,439	679,865	-	900,000	1,105,439	1,579,865
General Revenues:						
Property Taxes	19,930,492	18,567,451	-	-	19,930,492	18,567,451
Other Taxes	15,222,164	16,580,383	-	-	15,222,164	16,580,383
Motor Vehicle in Lieu	105,883	157,143	-	-	105,883	157,143
Other	3,551,880	5,544,068	439,576	874,003	3,991,456	6,418,071
Total Revenues	55,116,463	57,270,928	16,119,746	16,222,496	71,236,209	73,493,424
Expenses:						
General Government	9,528,102	9,090,991	-	-	9,528,102	9,090,991
Public Safety	29,889,347	31,752,170	-	-	29,889,347	31,752,170
Public Works	8,460,078	8,675,214	-	-	8,460,078	8,675,214
Culture & Recreation	5,811,982	6,031,938	-	-	5,811,982	6,031,938
Interest on Long-Term debt	954,861	1,178,065	-	-	954,861	1,178,065
Water, Waste, Storm	-	-	10,333,273	9,198,028	10,333,273	9,198,028
Refuse	-	-	4,212,176	3,888,615	4,212,176	3,888,615
Parking	-	-	2,082,830	2,392,802	2,082,830	2,392,802
Total Expenses	54,644,370	56,728,378	16,628,279	15,479,445	71,272,649	72,207,823
Revenues Over Expenses	472,093	542,550	(508,533)	743,051	(36,440)	1,285,601
Transfers In (Out)	110,230	(30,771)	(110,230)	30,771	0	-
Increase (Decrease) in Net Assets	582,323	511,779	(618,763)	773,822	(36,440)	1,285,601
Net Assets - Beginning	131,060,065	130,548,286	40,058,702	39,505,144	171,118,767	170,053,430
Restatement				(220,264)		(220,264)
Net Assets - June 30 (Year End)	\$ 131,642,388	\$ 131,060,065	\$ 39,439,939	\$ 40,058,702	\$ 171,082,327	\$ 171,118,767
Total Change from Prior Year (Before restatement)	\$ 582,323		\$ (618,763)		\$ (36,440)	

Changes in Net Assets - Governmental Activities

The City's governmental activities in FY 2008-2009 increased net assets by \$582,323, which was a .4% increase from FY 2007-2008.

Total Governmental revenues of \$55,116,463 are broken-out as follows:

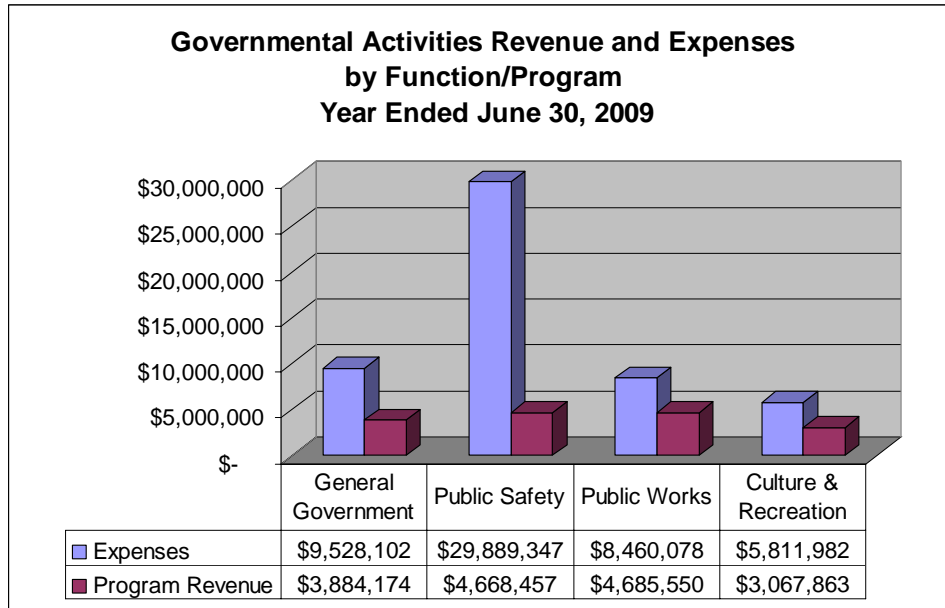


Functional expenses (excluding interest on debt) for the years ending June 30, 2009 and 2008 were as follows:

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
General Government	\$ 9,528,102	\$ 9,090,991	\$ (5,643,928)	\$ (4,775,643)
Public Safety	29,889,347	31,752,170	(25,220,890)	(27,195,444)
Public Works	8,460,078	8,675,214	(3,774,528)	(4,191,138)
Culture and Recreation	5,811,982	6,031,938	(2,744,119)	(2,966,205)
Total	\$ 53,689,509	\$ 55,550,313	\$ (37,383,465)	\$ (39,128,430)

The total cost of services declined from the prior year by \$1.86 million (3.3%), while the net cost of services decreased by \$1.74 million, or 4.5% from the prior year. The main reason for the decline was a significant drop in Workers Compensation claims activity (\$1.8 million) compared to the prior year.

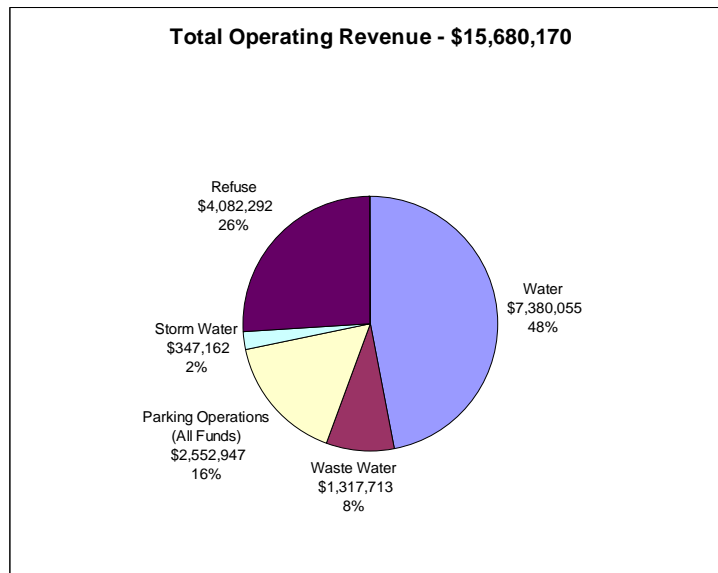
The following chart illustrates governmental revenues and expenses by function for the year ended June 30, 2009.



Change in Net Assets - Business Type Activities

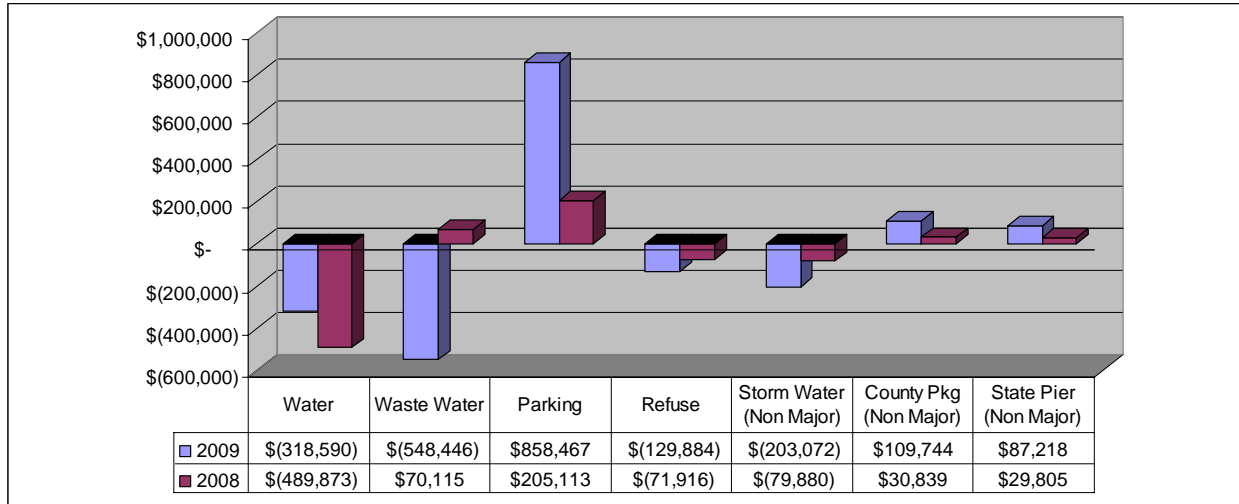
In fiscal year 2008-2009, total revenues for the City's business type activities amounted to \$16,119,746. Operating revenues totaled \$15,680,170, while non-operating revenues (interest income) totaled \$439,576. Expenses totaled \$16,628,279, of which operating expenses equaled \$15,824,733, and non-operating expenses (debt interest expense) totaled \$803,546. Total income from operations was *negative* \$144,563, while net income before transfers was negative \$508,533. After transfers out totaling \$110,230, net assets decreased by \$618,763.

Operating Revenues by Source - Business Type Activities FY 2009



Operating Income varied across the business-type activities in FY 2009. A year-over-year comparison is presented below. Further analysis of the major funds is discussed later in this report.

Net Operating Income/(Loss) for Business-Type Activities for 2008 & 2009



FUND FINANCIAL STATEMENTS

Governmental Funds

As of the end of the 2009 fiscal year, the City’s governmental funds ending fund balances totaled \$30.11 million, a decrease of \$432,458 in comparison with the prior year.

Approximately 76% of the total Governmental Funds total, or \$23 million, constitutes unreserved fund balance. The remainder of the fund balance (\$7.13 million) is reserved, to indicate that it is not available for new spending because it has already been committed for on-going capital projects, purchase orders of the prior period, and for legally-required debt service reserves.

It is important to note that City Council established fund designations in its financial policy requirements and budgetary capital planning initiatives. Components of fund balances are listed in Note 8 of these financial statements. Of the \$23 million unreserved governmental fund balance noted above, \$15.4 million has been designated by City Council actions. Considering these designations, \$7.6 million in governmental fund balances (General, Capital Improvement, and Special Revenue Funds) remain unreserved and undesignated.

General Fund

The General Fund is the chief operating fund of the City of Manhattan Beach. At the end of the 2008-2009 fiscal year, unreserved fund balance of the General Fund was \$16.71 million, while total fund balance was \$18.33 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 33.4% (4 months) of total General Fund expenditures, while total fund balance represents 36.6% (4.4 months) of that same.

During the year, General Fund expenditures exceeded revenues by approximately \$100,000. This imbalance is mainly the result of the planned use of available resources for the \$520,000 contribution to the School District.

Net transfer activity in this fund totaled negative \$10,723, and included the following transfers:

- The Street Lighting Fund received \$170,953 to relieve a deficit fund balance.
- \$110,230 of excess reserves from the County Lot Fund was transferred to the General Fund in line with the contract with the County of Los Angeles.
- \$50,000 was transferred from the CIP Fund to the General Fund to be added to the City Council Contingency account.

Capital Improvement Fund

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

At the end of the current fiscal year, the unreserved fund balance of the Capital Improvement Fund was \$3.5 million, while total fund balance was \$5.4 million. A portion of the unreserved balance (\$969,572) has been specifically earmarked for the underground assessment district loan program, leaving \$2.5 million in undesignated fund balance at June 30, 2009 (please see Note 8 to these financial statements). Project reserves, which total \$994,200 at year-end include:

- \$320,000 for the Strand Stairs project
- \$280,000 for Live Oak and Manhattan Heights park fencing
- \$150,000 for the Energy Retrofit Audit
- \$100,000 for Artesia Blvd. improvements
- \$75,000 for Live Oak Park retaining wall and landscaping
- \$69,200 for City Hall and Library painting and landscaping

During Fiscal Year 2008-2009, the Capital Improvement Fund balance decreased by \$908,366. The decrease is the result of expenditures for a number of projects and purposes discussed later.

Dedicated revenues in this fund amounted to \$1.12 million in FY 2008-2009. These revenues are earmarked for funding general government capital improvement projects in the effort to maintain and enhance City infrastructure. A breakdown of these follows:

Hotel Tax: 15% of the Transient Occupancy Tax has been dedicated to funding CIP's. This has resulted in the generation of \$517,427 of revenue for the year. This is 19.7% below prior year levels marking a significant decrease in general local tourism and patronage.

Parking Meter Rates: A twenty-five cent per hour increment of on-street parking meter rates, dedicated to capital improvements, generated revenue of \$477,230 this fiscal year. This was down 11% from the prior year levels.

Parking Citation Rates: Four dollars of most parking citations is dedicated to the CIP fund. For FY 2008-2009, revenue of \$125,247 was realized; an increase of 2.5% over the prior year.

This fund realized \$137,401 in permits, interest and other revenue.

Capital Improvement Fund expenditures equaled \$2.12 million which included:

- \$1,065,383 for Polliwog Park playground equipment
- \$813,593 for Police & Fire facility debt service
- \$156,998 towards entryway signage at the City's borders

Gas Tax Fund

Gas Tax expenditures totaled \$976,519, and primarily included sidewalk repair and street resurfacing projects. When balanced against the revenues received, the Gas Tax Fund balance increased by \$416,777. Changes in fund balances for this group can be expected to fluctuate as capital projects are expended over time.

Other Governmental Funds

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

One fund in particular, the Street Lighting Fund, continues to run deficits each year. For FY 2008-2009, expenditures exceeded revenues by \$170,953. Because there is no fund balance to draw upon, the General Fund contributed the entire amount needed for continued operations. These contributions will be necessary until a Proposition 218 assessment vote is successful in raising the assessment rates and revenues.

Proprietary Funds

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

Enterprise Funds

At year-end, total net assets of all enterprise funds amounted to \$39.44 million, of which \$12.7 million is unrestricted. Within the working capital of that amount, Council, by policy, has established certain designations for continuing CIP's and financial policy goals, which total \$6.4 million. The remaining restricted balance has been classified as such given the existence of legal reserve requirements for ongoing bonded capital projects, business improvement district funds and debt service requirements.

Overall, enterprise funds combined net income was negative \$508,533 before transfers. Net assets decreased for all funds by \$618,763. The difference between the decrease in assets and the negative net income was an operating transfer of \$110,230 from the County Lots enterprise fund to the General Fund.

Several enterprise funds are worth noting this year. In each of these cases, operating expenses exceeded revenues:

- Water Fund net income from operations was a negative \$318,590. This was a reduction from the prior year's net operating loss of \$489,873. Revenue from sales increased by 4.8%, and total revenues increased 7.6%, while operating expenses (labor, materials, services, etc.) rose by 4.7%. A major contributing factor to the negative net income was a dramatic decrease in interest rates, and therefore, interest income. This affected non operating income, which dropped by \$266,950 from the prior year.
- The Waste Water fund net operating income for FY 2008-2009 was negative \$548,446. This loss was primarily due to the expense associated with infrastructure and rate studies performed during the year in preparation for future capital improvements, as well as on-going operations. Like the Water fund, non operating income mainly derived from interest earnings, dropped by \$42,080 from the prior year.
- Storm Water Fund net operating income in FY 2009 was a negative \$203,072. This was the result of contractual operating expenses and maintenance increasing by 31.6% over 2008 levels to \$550,234, while revenues increased by 2.6% to \$347,162 from the prior year.

Subsequent to the end of FY 2008-2009, the City Council approved increased water and waste water rates to support system infrastructure needs as well as to bolster the fiscal integrity of those funds (the new rate structure becomes effective in January 2010). Storm Water revenues are based on property assessments which require a Proposition 218 vote to change. Increased costs from new governmental clean water standards, as well as labor and materials costs will eventually require such a vote to support this activity.

Internal Service Funds

Unrestricted net assets of the internal service funds at the end of the year amounted to \$2.62 million with a net assets total of \$5.72 million. Net assets increased by \$1,026,291 due to an unexpected improvement in claims cost in the Insurance Reserve Fund, primarily from Workers Compensation. FY 2008-2009 workers compensation and liability claims totaled \$2.34 million, down from \$3.5 million in 2008. The City continues to look for ways to proactively manage risk and reduce these costs.

General Fund Budgetary Highlights

Estimated Revenues

Actual revenues, which totaled \$50,009,926, were under the original budget by \$2.06 million. Taxes and Assessments were \$1.1 million under budget. Licenses and Permits came in \$286,160 below estimates, while Fines exceeded budget estimates by \$226,006. Interest and Rents under performed the budget by \$271,018. Finally, Miscellaneous revenue came in \$251,401 below estimates, however, the majority of that shortfall was due to a reduction in reimbursement revenue from the Insurance Fund since the City experienced better than expected workers compensation claims activity.

Appropriations

The final amended budget reflects an increase of \$786,170 over the adopted appropriations.

Significant budget adjustments included:

- \$459,705 in re-appropriations for open purchase orders from fiscal 2007-2008
- \$260,441 for reimbursable police and fire safety grants for equipment and programs
- \$50,000 earmarked for the Council Contingency account

Capital Asset and Debt Administration

Capital Assets: Government wide, the City's investment in capital assets (net of accumulated depreciation) as of June 30, 2009 is \$158,492,515. This is an increase from the prior year of \$266,852, or .2%. This investment in capital assets includes land, buildings, park improvements, roadways, sewer, storm drains, vehicles, computer equipment, furniture and other equipment.

City of Manhattan Beach Capital Assets (Net of depreciation)

	Governmental Activities		Business -Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 33,634,566	\$ 33,634,566	\$ 1,757,434	\$ 1,757,434	\$ 35,392,000	\$ 35,392,000
Buildings	38,871,767	39,733,862	16,159,177	16,141,008	55,030,944	55,874,870
Machinery & Equipment	2,256,865	2,397,549	324,964	354,113	2,581,829	2,751,662
Vehicles	3,299,067	2,920,572	-	-	3,299,067	2,920,572
Infrastructure	36,078,912	34,770,892	21,972,595	20,889,327	58,051,507	55,660,219
Invested in Joint Venture (RCC)	1,827,358	1,840,811			1,827,358	1,840,811
Work In Progress	1,931,376	2,175,840	378,434	1,609,688	2,309,810	3,785,528
Total	<u>\$117,899,911</u>	<u>\$117,474,092</u>	<u>\$40,592,604</u>	<u>\$40,751,570</u>	<u>\$158,492,515</u>	<u>\$158,225,662</u>

Governmental

During the current fiscal year, governmental capital expenditures totaled \$4.1 million, including:

- \$1.42 million in street improvements
- \$1.23 million in park improvements
- \$978,662 in vehicle purchases
- \$367,300 of machinery and equipment purchases

These additions were offset by the sale of surplus vehicles and assets, and by scheduled depreciation. The net increase in assets was \$425,819, or .4%.

Business Type

During the current fiscal year, Business Type capital expenditures totaled \$712,064. These included \$462,000 in water system improvements and \$211,800 in Waste Water infrastructure improvements. These were offset by scheduled depreciation, resulting in a net decrease in assets of \$158,966.

Please refer to footnote 5 for additional information on the City's capital assets.

Liabilities: Total long term liabilities citywide equal \$53,397,892, a decrease of \$1,959,746 from fiscal 2007-2008. Governmental liabilities decreased by \$1,565,416 (4%) while business type liabilities decreased by \$394,331 (2.5%). Please refer to footnote 6 for further information.

City of Manhattan Beach Outstanding Liabilities

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Marine Avenue COP's	\$ 8,165,000	\$ 8,375,000	\$ -	\$ -	\$ 8,165,000	\$ 8,375,000
Capital Equipment Lease	215,949	390,008	-	-	\$ 215,949	390,008
Police & Fire Facility COP's	12,245,000	12,495,000	-	-	\$ 12,245,000	12,495,000
Accrued Employee Leave & Benefits	2,472,748	2,362,213	99,836	104,166	\$ 2,572,584	2,466,379
Supplemental Leave	15,879	27,058	-	-	\$ 15,879	27,058
Water and Wastewater COP's			3,605,000	3,715,000	\$ 3,605,000	3,715,000
Metlox Parking COP's			12,020,000	12,300,000	\$ 12,020,000	12,300,000
Pension Obligation Bonds	5,400,000	6,095,000			\$ 5,400,000	6,095,000
So. Bay Communications (RCC)	1,670,000	1,750,000			\$ 1,670,000	1,750,000
Insurance Claim Reserves	7,488,480	7,744,193	-	-	\$ 7,488,480	7,744,193
Total Liabilities	\$ 37,673,056	\$ 39,238,472	\$ 15,724,836	\$ 16,119,166	\$ 53,397,892	55,357,638
Current (due within one year)	<u>\$ 6,733,213</u>	<u>\$ 7,052,691</u>	<u>\$ 420,244</u>	<u>\$ 407,340</u>	<u>7,153,457</u>	<u>7,460,031</u>
Long Term Liabilities	<u>\$ 30,939,843</u>	<u>\$ 32,185,781</u>	<u>\$ 15,304,592</u>	<u>\$ 15,711,826</u>	<u>\$ 46,244,435</u>	<u>\$ 47,897,607</u>

* Excludes unamortized bond premium of \$154,684

Governmental

Principal obligations for existing debt were reduced in accordance with existing debt service schedules. The total decrease in debt was \$1,409,059.

Business Type

Liabilities decreased as a result of the reduction in bond principal of \$390,000 (\$110,000 in Water/Waste Water bonds and \$280,000 in Metlox Public Improvement bonds). No new debt was issued in FY 2008-2009.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 3.75% of its total assessed valuation. The current debt limitation for the City of Manhattan Beach is \$438,671,235.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council adopted the FY 2009-2010 operating budget in June 2009. The budget, which included a planned use of available funds of \$1.3 million in order to provide fiscal support for the Manhattan Beach Unified School District, estimates General Fund revenues at \$49,402,520 and expenditures of \$50,911,195. The deficit (\$1.5 million) will be funded through the use of available, unreserved and undesignated funds.

The City's major General Fund revenue sources are clearly showing the affects of the recession, which officially began in December 2007. Property Tax, the single biggest General Fund revenue source, which has had near double-digit growth rates for the past several years, is expected to have much lower growth rates – the result of the decline in the housing market. As a result, the 2009-2010 budget projects property taxes to exceed 2008-2009 collections by .6% - a rate much lower than prior years. We expect to see further weakness in the housing market, and potentially lower annual growth rates in the near term.

By way of other revenues in the General Fund, Sales Tax is projected to decrease by .4% from FY 2008-2009 results, while the Transient Occupancy Tax, which was already greatly affected in FY 2008-2009 by the decline in business travel and tourism, is projected to be 1.7% below last year's receipts. In keeping with the on-going housing slump, Building Permit and Plan Check Fees were budgeted below FY 2008-2009 actual levels by 4.2% and 9.2% respectively. Finally, Business License Tax revenue is expected to come in 7.8% below FY 2008-2009, further reflecting the economic slowdown.

In response to declining revenues, the City eliminated seven positions through the FY 2009-2010 budget. These included two each in the Police, Public Works and Community Development departments, as well as one in the Finance department. This saved approximately \$700,000. Other program cuts and belt-tightening resulted in savings totaling \$1.5 million, leaving the deficit at \$1.5 million – an amount that includes the discretionary contribution of \$1.3 million to the school district.

There are long term labor agreements in place with the three bargaining units (Police, Fire and Miscellaneous), with the first expiration date occurring in summer 2010. These agreements have given us a measure of predictability in our labor costs, which equal nearly 70% of the General Fund expenditures. On a related note, the City is experiencing increased retiree medical liabilities with the passage in 2006 of State Assembly bill AB 2544 (the bill took effect January 2008). This legislation requires the City, as a subscriber to the CalPERS medical plans, to provide certain minimum cash contributions towards retirees' medical premiums. Those liabilities, as well as other negotiated retiree medical benefits (valued at \$5.7 million) have been recognized as required by GASB 45, and were pre-funded in its entirety during FY 2007-2008 with CalPERS' trust program. However, the dramatic losses in the equity markets, as well as other investment instruments, resulted in a loss of \$1,473,890 in this asset. But as of September 30, 2009, the asset has recouped \$847,329 in value as the financial markets improved during calendar year 2009. The City is currently in the process of obtaining a new valuation for these liabilities, as required every two years by GASB 45.

Clearly, the recession and economic events of late 2008 had material impacts on the City's finances. Lower interest rates will continue to affect future investment income, the housing slowdown will continue to affect property taxes and construction-related revenues, and retail and tourism based revenues such as Sales Tax, Business License Tax and Transient Occupancy Tax will be continue to be weak.

Overall, the General Fund budget anticipates revenues and expenditures to decrease 4.65% and 2.7% respectively over the prior year's budget. Excluding the one-time use of available General Fund moneys (\$1.3 million) to support the school district, expenditures decreased by 4.2%, more closely in line with the decrease in revenue.

Requests for Information

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