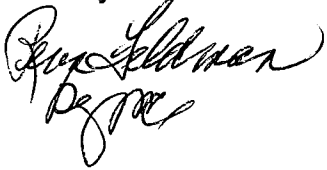



Council Agenda Report

To: Mayor Jennings and the Honorable Members of the City Council

Prepared by: Reva Feldman, Administrative Services Director 

Approved by: Jim Thorsen, City Manager 

Date prepared: December 13, 2007 Meeting date: January 14, 2008

Subject: Annual Audit Report and Management Letter for Fiscal Year 2006-2007

RECOMMENDED ACTION: Receive and file the Comprehensive Annual Financial Report.

FISCAL IMPACT: None.

DISCUSSION: The City's independent auditors from the firm of Lance, Soll and Lunghard, LLP, have concluded their annual financial audit of the City for the fiscal year ending June 30, 2007, and have approved the issuance of the Comprehensive Annual Financial Report (CAFR).

The CAFR reflects that the City's financial condition continues to improve with total fund balances of \$21.9 million at June 30, 2007, an increase of \$800,000 over the previous fiscal year. This is a result of the City's conservative expenditures and diligence in building the General Fund reserves. The General Fund reserve totaled \$18.6 million at fiscal year end. Of that amount, \$336,833 was reserved for encumbrances and prepaid expenses; \$1.04 million was designated for the future City Hall; \$500,000 was designated for Building and Safety; \$1.2 million was designated for Capital Improvement Projects; and \$65,993 was reserved for Vehicles and Information Technology.

The Special Revenue Funds, which account for all restricted monies designated for specific uses, ended the 2006-2007 fiscal year with an aggregate Fund Balance of \$3.5 million, representing an increase of \$300,000 from the previous fiscal year.

The auditors issued a management letter that had no findings, indicating that the standards applicable to financial audits contained in the *Government Auditing Standards* have been adhered to by the City of Malibu.

ATTACHMENTS: Audit Management Letter

The CAFR has been distributed to the City Council and is on file in the City Clerk's office.



Certified Public Accountants

Brandon W. Burrows
Donald L. Parker
Michael K. Chu
David E. Hale
A Professional Corporation
Donald G. Slater
Richard K. Kikuchi

Retired

Robert C. Lance
1914-1994
Richard C. Soll
Fred J. Lunghard, Jr.
1928-1999

December 10, 2007

To the Honorable Mayor and Members of the City Council
City of Malibu
Malibu, CA

We have audited the financial statements of the City of Malibu for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Accounting Standards Generally Accepted in the United States of America and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Malibu. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Any significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Malibu's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions. Again, any non-compliance with provisions of laws, regulations, contracts and grants noted by us, if any, have been communicated to you by a separate letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Malibu are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the City of Malibu during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.





To the Honorable Mayor and Members of the City Council
City of Malibu
Page 3

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Governing Board, Committees of and management of the City of Malibu and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lance, Soll & Lunghard, LLP

CITY OF MALIBU, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL
REPORT
FOR THE YEAR ENDED JUNE 30, 2007

Prepared by:
City of Malibu
Administrative Services Department
Reva Feldman, Administrative Services Director

CITY OF MALIBU, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007

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CITY OF MALIBU, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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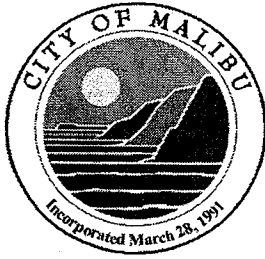
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INTRODUCTORY SECTION

The Introductory Section of the Comprehensive Annual Financial Report provides general information of the City of Malibu, California's structure and its personnel, as well as information useful in assessing the City's financial condition. This section includes the following:

- Letter of Transmittal
- List of City Officials
- Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting
- City's Organizational Chart



City of Malibu

23815 Stuart Ranch Road, Malibu, California 90265-4861
(310) 456-2489 fax (310) 456-3356

December 10, 2007

Honorable Mayor and City Council
City of Malibu, California

The Comprehensive Annual Financial Report (CAFR) of the City of Malibu for the fiscal year ending June 30, 2007 is hereby submitted. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the information presented is accurate in all material aspects, and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City of Malibu. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). This report consists of management's representations concerning the finances of the City of Malibu, California. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management we attest that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City's financial statements have been audited by Lance, Soll & Lunghard LLP, a public accounting firm fully licensed and qualified to perform audits of state and local governments within the State of California. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Malibu, California's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP.



This CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organization chart, awards and a list of City officials. The financial section includes the independent auditor's report, the basic financial statements, notes to the financial statements, and the combining and individual fund financial statements. The statistical section, which is unaudited, contains selected financial and demographic information, generally presented on a multi-year basis.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis* (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Malibu's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

Profile of the City of Malibu

The City of Malibu was incorporated as a general law city on March 28, 1991 and operates under the council/manager form of government. Located in northwest Los Angeles County, the City encompasses over 20 square miles along the Pacific Ocean. Malibu has a population of approximately 13,700 residents, but with its miles of public beaches, more than 10 million people visit the City each year. The City provides a full range of services, some of which are contracted through outside agencies and/or firms. These services include law enforcement, highways and roads, recreation areas, planning and zoning, building and environmental safety, emergency preparedness and general administrative services.

The City of Malibu has a rich and diverse history. Originally settled by the Chumash Indians, they named the stretch of beach at the mouth of the Malibu Creek "Humaliwo" or "the surf sounds loudly". In 1802, Jose Tapia established a ranch in the area. Passed on through generations, it was eventually sold in 1891 to Fredrick Rindge. Seeking an ideal country home for his family, the private domain was guarded fiercely. Rindge's widow, May, fought off an effort to route the Southern Pacific Railroad through Malibu by establishing her own private railroad. Later, the State of California succeeded in obtaining a right-of-way to build the Pacific Coast Highway through the property. A final court battle in the late 1920's forced Rindge to begin leasing, then selling the property at the mouth of Malibu Creek. As most of the purchasers were movie stars, the area became known as the Malibu Movie Colony.

Today, Malibu is a predominantly residential community that has become a haven for those seeking to escape the urban life of Los Angeles. Its small commercial sectors consist of many quaint shops and restaurants that welcome locals and visitors alike. Programs and exhibits offered by Pepperdine University and the Wiesman Museum of Art provide culturally enriching experiences.

Factors Affecting Financial Condition

Malibu's local economy is unique in that it is significantly impacted by climate. In the warm weather months, millions come to Malibu to enjoy the beautiful beaches. During the winter months, rain and pounding surf can flood roads and create landslides, making travel through the City difficult. Since its incorporation in 1991, Malibu has been plagued with disasters,

including six floods, multiple fires and an earthquake, creating a significant drain on the City's finances. For this reason the City maintains a substantial reserve in its General Fund. The City has seen an increase in its General Fund reserves over the past few years.

While the State of California struggles with a significant budget deficit and many government agencies have been impacted by a slower economy in recent years, the City of Malibu's financial position remains strong. The largest revenue source is property tax, which continues to increase due to a strong residential real estate market and increased valuation. Sales tax is relatively unaffected by the economy, as the City has only small retail establishments. Malibu relies heavily on grant funding for many of the capital projects it undertakes and has been successful in securing millions of dollars over the years from various agencies.

Other Information

Budgetary Controls. The City of Malibu maintains a budget control system to ensure compliance with the spending limits incorporated in the annual operating budget adopted by the City Council. Activities of the general fund and special revenue funds are included in the annual appropriated budget. Project-length financial plans are adopted for the capital project funds. Budgetary control is maintained at the fund level for administrative and operating expenditures and at the project level for capital improvements. Only the City Council has the authority to increase total appropriations within any fund, subject to the appropriations limitations established by State law. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Cash Management. The City manages cash and investments on a pooled basis, consisting primarily of participation in the Local Agency Investment Fund (LAIF), a pooled fund controlled by the State Treasurer. The City's investment policy allows for investments in short-term money market instruments and U.S. government issues, the State and County pooled funds, and passbook savings accounts, but prohibits investment in long-term instruments and derivatives.

In fiscal year 2006-07 the City of Malibu's investment portfolio averaged approximately \$22 million with an average annualized return on investments of 5.1% and total interest of \$985,961.

In fiscal year 2005-2006, the City issued Certificates of Participation (COPs) in the amount of \$17.5 million. The City purchased an approximately 20 acre parcel in the Civic Center area of Malibu. Funding for the acquisition was a combination of grants, donations, COPs and General Fund dollars. The vacant portion property will ultimately be developed into a passive park that is part of a storm water and waste water management plan. There are three commercial properties on the site that are leased out by the City. The COPs will be repaid in a period of thirty years. Funding for the lease payments associated with the COPs is generated from rental fees collected from the commercial properties.

Risk Management. The City is a member of the California Joint Powers Insurance Agency (CJPIA), a self-insurance pool comprised of 107 municipalities and special districts throughout California, for the purpose of pooling Malibu's risk for general liability and worker's

compensation losses with those of other member cities. The City's self-insured retention is \$30,000 per occurrence for general liability and \$50,000 per occurrence for worker's compensation. Under the CJPIA, insurance coverage in excess of the self-insured amount is provided up to a limit of \$50,000,000.

Pension Plan. The City contracts with the California Public Employees Retirement System (CalPERS) for certain retirement benefits for full-time employees. The annual actuarial valuation by CalPERS changes from year to year, and the City's contribution rates are modified accordingly. For more information, please refer to note number 8 of the notes to the Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Malibu for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report that must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement from the GFOA is valid for a period of one year. City staff believes that this current comprehensive annual financial report continues to meet the requirements for the award and will submit it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the Administrative Services Department staff. Special acknowledgment is given to Mike Matsumoto, Ruth Piyaman and to the assistance of Lance, Soll, & Lunghard LLP, the City's independent auditors. I would also like to thank the City Manager, Mayor and members of the City Council for their support in planning and conducting the operations of the City in a responsible and progressive manner.

Respectfully submitted,

Reva Feldman
Administrative Services Director

**CITY OF MALIBU, CALIFORNIA
LIST OF CITY OFFICIALS**

CITY COUNCIL

MAYOR	JEFF JENNINGS
MAYOR PRO TEM	PAMELA CONLEY ULICH
COUNCIL MEMBER	ANDY STERN
COUNCIL MEMBER	KEN KEARSLEY
COUNCIL MEMBER	SHARON BAROVSKY

DEPARTMENT OFFICIALS

CITY MANAGER	JIM THORSEN
ADMINISTRATIVE SERVICES DIRECTOR	REVA FELDMAN
CITY CLERK	LISA POPE
COMMUNITY DEVELOPMENT DIRECTOR	VIC PETERSON
PARKS AND RECREATION DIRECTOR	BOB STALLINGS
PUBLIC WORKS DIRECTOR	BOB BRAGER
CITY ATTORNEY	CHRISTI HOGIN

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Malibu
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

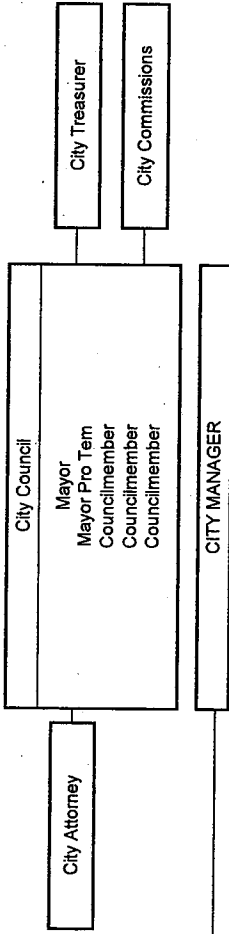
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



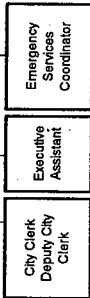
President

Executive Director

CITY OF MALIBU Organization Chart



DEPARTMENT HEADS			
Administrative Services Director	Public Works Director/City Engineer	Community Development Director	Parks and Recreation Director
Finance/Accounting Manager Human Resources Analyst I.S. Administrator Accounting Technician Accounting Clerk Receptionist/Office Assistant Telecommunications Specialist Office Assistant**	Deputy City Engineer Senior Civil Engineer PW Superintendent Associate Civil Engineer Assistant Civil Engineer Public Works Inspector Senior PW Maintenance Worker Environmental Programs Coordinator Administrative Assistant Senior Office Assistant Intern** Crossing Guard**	Division Manager - Env. & Bldg. Safety Division Manager - Planning Division Manager - Permit Services & Code Entf. Senior Planner (4) Associate Planner (2) Building Inspector (3) Environmental Health Administrator Certified Plans Examiner Assistant Planner (2) Code Enforcement Officer Administrative Analyst (2) Admin. Assistant Records Mgmt. Specialist (2) Senior Permit Services Tech Permit Services Tech (2) Wastewater Management Program Analyst Office Assistant (2) Intern**	Recreation Manager Recreation Supervisor Administrative Analyst Recreation Coordinator (3) Senior Parks Maintenance Worker Recreation Assistants** Maintenance Assistant Monitor** Lifeguards**



FINANCIAL SECTION

The Financial Section of the Comprehensive Annual Financial Report contains the following:

- Independent Auditor's Report
- Required Supplementary Information – Management Discussion and Analysis (MD&A)
- Basic Financial Statements



Certified Public Accountants

Brandon W. Burrows
Donald L. Parker
Michael K. Chu
David E. Hale
A Professional Corporation
Donald G. Slater
Richard K. Kikuchi

Retired

Robert C. Lance
1914-1994
Richard C. Soll
Fred J. Lunghard, Jr.
1928-1999

DRAFT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council
City of Malibu, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Malibu, California, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated [REDACTED], 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following to be a significant deficiency in internal control:





To the Honorable Mayor and Members of the City Council
City of Malibu, California

Restatements of Prior Period Financial Statements

In prior years, property tax assessment revenues belonging to the Big Rock Mesa LMD were posted to the Calle del Barco LMD. As a result, beginning fund balance has been restated between these two funds.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lughard, LLP

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2007

As management of the City of Malibu, we offer readers of the City of Malibu's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The assets of the City of Malibu exceed its liabilities at the close of the fiscal year ended June 30, 2007 by \$79,788,232 (*net assets*). Of this amount, \$22,909,003 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,386,576.
- As of June 30, 2007, the City's governmental funds reported combined ending fund balances of \$21,901,253, an increase of \$768,480 in comparison with the prior year. Of this amount, \$14,875,462 is available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- As of June 30, 2007, the unreserved, undesignated fund balance for the General Fund was \$15,421,054 or 83% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are 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.

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 Malibu 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 change's underlying event occurs, 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).

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2007

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative and advisory, general government, public safety, community development, parks and recreation, and public works. Business-type activities are comprised of commercial real estate rental.

The government-wide financial statements are in this report's financial section immediately following the Management's Discussion and Analysis (MD&A).

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 Malibu, 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, enterprise 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Malibu maintains 16 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, the Grants Fund and the Capital Improvements Fund, all of which are considered to be major funds. Data from the other 13 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 this report.

