

CITY OF MALIBU, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL
REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	i
City Officials.....	v
Awards	vi
Organization Chart.....	vii

FINANCIAL SECTION

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3

Basic Financial Statements:

Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Grants Special Revenue Fund	20
Statement of Net Assets – Proprietary Fund.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	22
Statement of Cash Flows – Proprietary Fund	23
Statement of Fiduciary Net Assets – Fiduciary Fund	24
Statement of Changes in Fiduciary Net Assets.....	25
Notes to the Financial Statements.....	26

Individual Fund Financial Statements and Schedules (Supplementary Information):

Governmental Funds:

Combining Balance Sheet – Non-major Governmental Funds.....	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds.....	48
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-major Governmental Funds.....	50

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

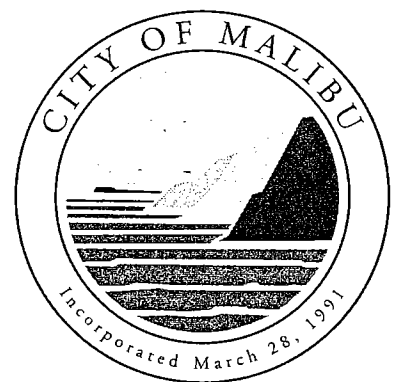
TABLE OF CONTENTS

Governmental Funds (continued):

Combining Statement of Net Assets – Pension Trust Funds	63
Combining Statement of Changes in Net Assets – Pension Trust Funds	64
Statement of Changes in Assets and Liabilities – Agency Fund	65

STATISTICAL SECTION (UNAUDITED)

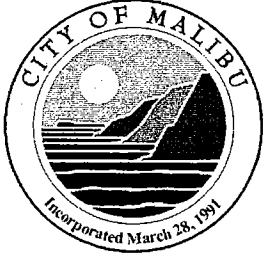
Statistical Section Index	
Net Assets by Component.....	67
Changes in Net Assets	68
Fund Balances of Governmental Funds.....	69
Changes in Fund Balances of Governmental Funds	71
Assessed Value of Taxable Property	73
Direct and Overlapping Property Tax Rates.....	74
Principal Property Taxpayers.....	75
Property Tax Levies and Collections.....	76
Ratio of Outstanding Debt by Type.....	77
Direct and Overlapping Governmental Activity Debt.....	78
Legal Debt Margin Information.....	79
Demographic and Economic Statistics	80
Full-Time Equivalent Government Employees by Function/Program	81
Indicators of Demand or Level of Services	82
Capital Asset Statistics by Function/Program.....	83



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 1, 2008

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, 2008 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, 2008, 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 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.

Long Term Financial Planning. The City prepares and adopts its budget on an annual basis. Each budget, however, takes into account future years spending needs and revenue availability. Capital projects are budgeted using a five-year planning approach and other major expenditures are evaluated and budgeted based on expectations of revenues and expenditures in future fiscal years. The City maintains a strong General Fund reserve. As of June 30, 2008, the City had over \$19 million in reserves, which allows for flexibility in budget projecting, and also provides the City with funding in the event of an unexpected fiscal emergency in future years.

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 2007-08 the City of Malibu's investment portfolio averaged approximately \$19 million with an average annualized return on investments of 4.3% and total interest of \$941,436.

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 is being 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 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.

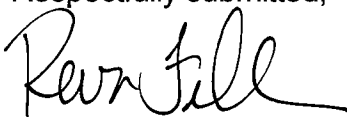
Awards and Acknowledgements

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, 2007. 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	PAMELA CONLEY ULICH
MAYOR PRO TEM	ANDY STERN
COUNCIL MEMBER	SHARON BAROVSKY
COUNCIL MEMBER	JOHN SIBERT
COUNCIL MEMBER	JEFFERSON WAGNER

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
CITY TREASURER	LILY RUFF

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, 2007

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.



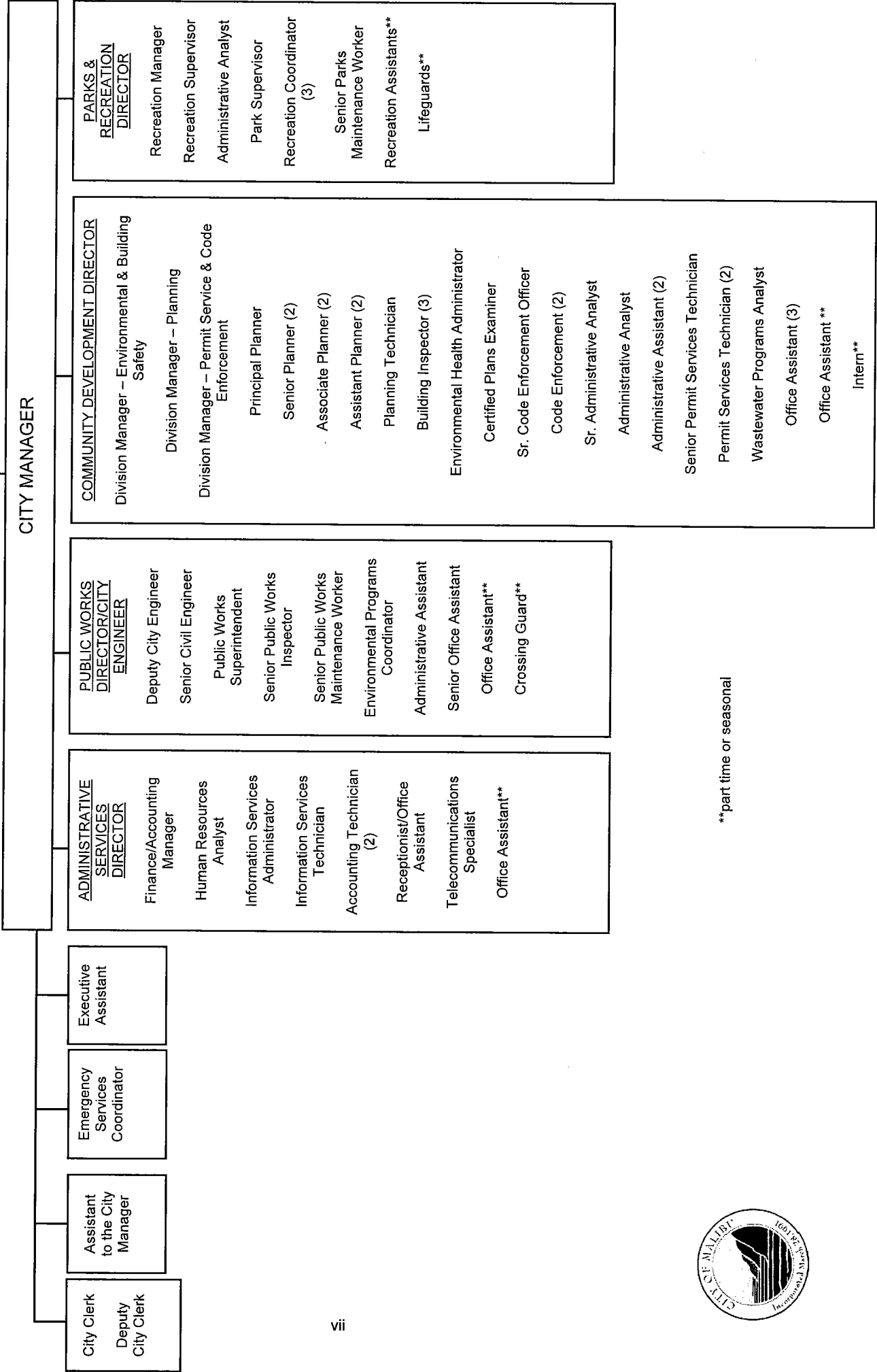
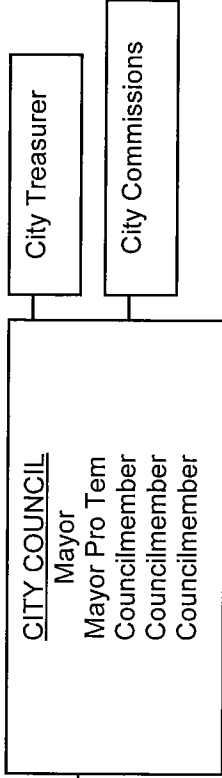
Oliver S. Cox

President

Jeffrey R. Emery

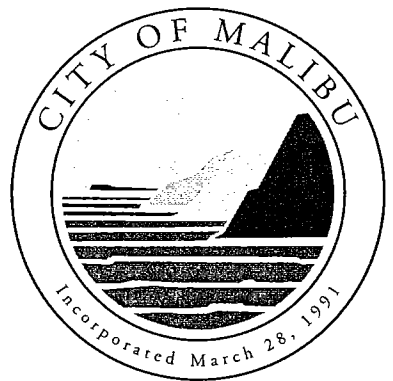
Executive Director

City of Malibu
Organization Chart



**part time or seasonal





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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Malibu, 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 Malibu, California, as of and for the year ended June 30, 2008, 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 Malibu'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 Malibu as of June 30, 2008, and the respective changes in financial position and cash flows where applicable thereof, and the respective budgetary comparison for the General Fund and the Grants 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 November 12, 2008, on our consideration of the City of Malibu's internal control over financial reporting and our tests of its compliance with certain laws, regulations, 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 accompanying 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 Malibu, California

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

Lance, Soll & Lunghard, LLP

November 12, 2008

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

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, 2008. 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, 2008 by \$88,142,511 (*net assets*). Of this amount, \$22,014,775 (*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 \$8,354,279.
- As of June 30, 2008, the City's governmental funds reported a combined ending fund balance of \$22,388,738, an increase of \$487,485 in comparison with the prior year. Of this amount, \$13,266,607 is available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- As of June 30, 2008, the unreserved, undesignated fund balance for the General Fund was \$14,015,739 or 77% 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 changes' underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

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).

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.

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Malibu adopts an annual appropriated budget for each of its governmental funds, excluding the Capital Improvements Capital Projects Fund. A budgetary comparison statement has been provided for each governmental fund which has an annual budget to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in the financial section of this report immediately following the government-wide financial statements.

Proprietary funds. Activities where the City charges fees to cover the costs are generally reported in proprietary funds (Enterprise and Internal Service). Like the government-wide financial statements, this fund type provides both long-term and short-term financial information utilizing the economic resources measurement focus. The City of Malibu reports one proprietary fund; the City's commercial real estate rental enterprise fund is represented as a business-type activity in the government wide financial statements. The individual fund presentation provides detailed information about the operating statements and cash flows.

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 in the financial section of this report following the fund financial statements.

Other information. Combining and individual fund statements and schedules can be found in the financial section of this report following the notes to the financial statements.

Government-wide Financial Analysis

City of Malibu Net Assets

	Governmental Activities		Business-type Activities		Total	
	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08
Current and other assets	\$ 26,984,226	\$ 26,734,788	\$ 2,566,372	\$ 2,663,844	\$ 29,550,598	\$29,398,632
Capital assets	47,021,515	52,495,175	25,190,990	28,396,606	72,212,505	80,891,781
Total assets	74,005,741	79,229,963	27,757,362	31,060,450	101,763,103	110,290,413
Long-term liabilities	275,534	367,388	18,317,174	18,103,440	18,592,708	18,470,828
Other liabilities	2,510,117	2,304,953	872,046	1,372,121	3,382,163	3,677,074
Total liabilities	2,785,651	2,672,341	19,189,220	19,475,561	21,974,871	22,147,902
Invested in capital assets	46,982,322	52,456,246	6,873,734	10,747,846	53,856,056	63,204,092
Restricted	2,483,915	2,431,741	539,258	491,903	3,023,173	2,923,644
Unrestricted	21,753,853	21,669,635	1,155,150	345,140	22,909,003	22,014,775
Total net assets	\$ 71,220,090	\$ 76,557,622	\$ 8,568,142	\$ 11,584,889	\$ 79,788,232	\$88,142,511

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Malibu, assets

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

exceeded liabilities by \$88,142,511 at June 30, 2008. The largest portion of the City's net assets (\$63,204,092 or 72 percent) 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.

An additional portion of the City's net assets (\$2,923,644 or 3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$22,014,775 or 25%) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Malibu Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08
Program revenues:						
Charges for services	\$ 6,410,329	\$ 6,164,151	\$ 492,287	\$ 838,046	\$ 6,902,616	\$ 7,002,197
Operating contributions and grants	4,485,950	1,669,641	72,212	-	4,558,162	1,669,641
Capital contributions and grants	5,331,418	3,581,462	-	2,500,000	5,331,418	6,081,462
General revenues:						
Property taxes	6,708,260	7,359,616	-	-	6,708,260	7,359,616
Other taxes	6,638,188	6,956,025	-	-	6,638,188	6,956,025
Other revenues and transfers	1,474,375	269,978	443,596	1,256,125	1,917,971	1,526,103
Total revenues	31,048,520	26,000,873	1,008,095	4,594,171	32,056,615	30,595,044
Expenses:						
Legislative and advisory	1,247,916	1,440,201	-	-	1,247,916	1,440,201
General government	3,268,188	3,738,866	-	-	3,268,188	3,738,866
Public safety	5,108,528	5,326,433	-	-	5,108,528	5,326,433
Public works	7,488,386	5,176,755	-	-	7,488,386	5,176,755
Parks and recreation	1,624,278	1,605,337	-	-	1,624,278	1,605,337
Community development	3,348,348	3,371,383	-	-	3,348,348	3,371,383
Interest on long-term debt	4,052	4,366	-	-	4,052	4,366
Commercial real estate rental	-	-	1,580,343	1,577,424	1,580,343	1,577,424
Total expenses	22,089,696	20,663,341	1,580,343	1,577,424	23,670,039	22,240,765
Increase in net assets	8,958,824	5,337,532	(572,248)	3,016,747	8,386,576	8,354,279
Net assets - July 1	62,261,266	71,220,090	9,140,390	8,568,142	71,401,656	79,788,232
Net assets - June 30	\$ 71,220,090	\$ 76,557,622	\$ 8,568,142	\$ 11,584,889	\$ 79,788,232	\$ 88,142,511

Governmental activities. Governmental activities increased the City's net assets by \$5.3 million during the fiscal year in contrast to an increase of \$8.9 million during the prior fiscal year. Key elements include:

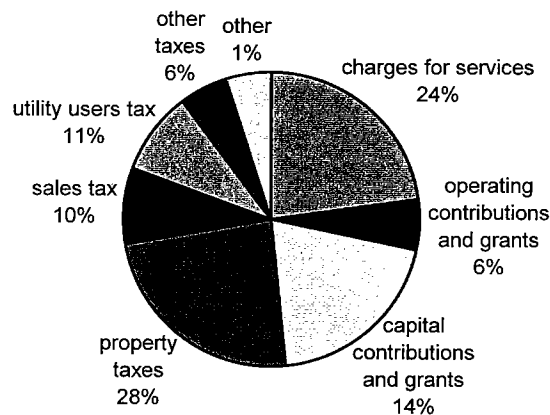
- An increase of \$651,000 in property tax revenue due to growth in assessed values of property.
- A decrease of \$4.6 million in operating and capital grants, mainly a result of receiving fewer disaster-related grants as well as having essentially completed the Civic Center Stormwater Treatment Plant in the prior year.
- A decrease of \$2.3 million in public works expenses due to a decrease in costs related to disaster responses.
- A decrease of \$1.2 million in other revenues and transfers. This decrease is essentially due to transferring \$1.2 million to the Commercial Real Estate Enterprise Fund to offset shortfalls in operating revenues over operating expenses and debt service costs.

CITY OF MALIBU

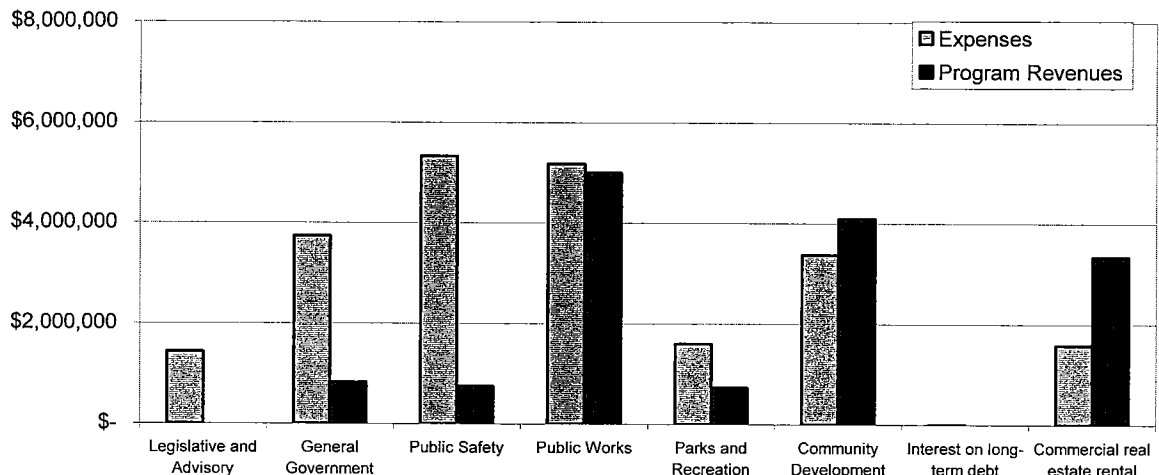
Management's Discussion and Analysis
June 30, 2008

Business-type activities. Business-type activities are financed primarily by fees charged to external parties for goods and services. The City's commercial real estate rental activity resulted in an increase of \$3.017 million in net assets. The main reason for the increase is the \$2.5 million capital contribution by a tenant. The tenant is doing major improvements to some commercial property owned by the City.

Revenues by Source (Government-wide)



Expenses and Program Revenues (Government-wide)



The previous two charts illustrate the City's overall expenses and revenues by source (including both governmental and business-type activities). General revenues such as property, utility users, and sales taxes are not shown by program, but are effectively used to support program activities citywide. Without

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

regard for program, taxes are the largest single source of funds for the City (47%), followed by charges for services (23%), and capital contributions and grants (20%).

Public Safety is the largest expense function, accounting for 25% of the total. Public Works is second at 23%, with General Government and Community Development functions each at 17% and 15% of the total, respectively. The expenses of public works decreased by \$2.3 million in FY 2007-2008 due to a decrease in costs related to disaster responses in public works.

Financial Analysis of the City's Funds

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,388,738, an increase of \$487,485 over the prior year. This increase is due to the General Fund's revenues exceeding expenditures and transfers out by \$671,000 which was then offset by the non-major governmental funds' expenditures and transfers out exceeding revenues by \$184,000.

Approximately 59% (\$13,266,607) of the combined ending fund balances constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of the combined ending fund balances is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$958,503), 2) to set aside funding towards the construction of a new Civic Center (\$1,541,431), or 3) for a variety of other restricted or authorized purposes (\$6,622,197).

General Fund. The General Fund is the chief operating fund of the City of Malibu and comprises approximately 70% of the governmental expenditures of the City. At the end of the current fiscal year the unreserved, undesignated fund balance of the General Fund was \$14,015,739 while the total fund balance reached \$19,277,597. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. The General Fund's unreserved, undesignated fund balance represents 77% of total General Fund expenditures, while the General Fund's total fund balance represents 106% of that same amount.

The General Fund revenues exceeded expenditures and transfers in fiscal year 2007-08. The main reasons were 1) the continued increase in taxable assessed valuation and 2) a delay in some expected general fund expenditures that will occur in future fiscal years.

Grants Special Revenue Fund. The purpose of the Grants Fund is to account for projects funded by various grants received from other governmental agencies. The majority of funds received are transferred to the Capital Improvements Fund.

CITY OF MALIBU

Management's Discussion and Analysis
June 30, 2008

Capital Improvements Capital Project Fund. This fund is used to account for the acquisition, construction and repair of major facilities and is fully funded by monies transferred from other funds.

Proprietary Fund. This fund is used to account for the commercial real estate rental activity. All revenues and expenses are for the commercial real estate rental program.

Budgetary Highlights

In preparing its budgets, the City attempts to estimate its revenues using realistic, but conservative methods so as to budget its expenditure appropriations and activities in a prudent manner. As a result, the City Council adopts budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues to allow for expansion of existing programs. During the course of the year, the City Council amended the originally adopted budget to reappropriate prior year approved projects and expenditures and to increase legal and professional services.

General Fund. The General Fund balance reflected a net total favorable budget variance of \$1,944,829 (before other financing sources) when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a negative variance of \$210,000 in revenues and a positive variance of \$2.15 million in expenditures. Although tax revenues exceeded budgeted amounts, this positive variance was offset by receiving fewer than expected grant revenues, resulting in the negative revenue variance. The positive expenditure variance resulted from fewer projects being performed and from projects progressing more slowly than anticipated.

The difference between the General Fund original budget and the final amended budget for expenditures was an increase of \$1.5 million and can be attributed to:

- An increase of approximately \$650,000 for disaster response expenditures
- An increase of approximately \$200,000 for emergency preparedness services and equipment
- Approximately \$100,000 for additional employees
- An increase of approximately \$145,000 for capital equipment
- \$300,000 for professional services for an environmental study

