



Finance Subcommittee
City of Manhattan Beach

Dear Finance Subcommittee:

We have completed our consideration of the City of Manhattan Beach, California (the "City")'s internal controls as part of our audit for fiscal year ended June 30, 2025 conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*. During the course of our auditing procedures, we identified certain matters which are deserving of your attention. These matters did not constitute reportable findings which are reported in our separately issued *Independent Auditors' 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*; that report is dated December 22, 2025. The matters described below are disclosed for the purpose of constructive feedback and to communicate opportunities for improvement and strengthening of the City's internal controls.

When the City's trial balance was reviewed for audit purposes, discrepancies in fund balances were identified because the City routinely records income statement transactions within fund balance accounts. These practices do not align with recommendations from the Government Finance Officers Association (GFOA) or comply with the standards set by the Governmental Accounting Standards Board (GASB), especially GASB Statement No. 54, which addresses fund balance reporting and definitions for governmental fund types.

Historically, the City has combined certain income statement accounts with fund balance classifications, which has necessitated extra year-end reconciliations and journal entries for proper classification. According to the GFOA's Best Practices on Fund Balance Reporting and GASB guidance, income statement accounts should be maintained separately from fund balance accounts to promote accuracy and transparency in financial reports. Failure to follow these best practices can lead to misstatements or misunderstandings regarding the City's financial position.

To address these concerns and strengthen our financial reporting practices, I propose the following actions, drawing upon relevant professional standards:

- Review and correct account groupings to ensure that income statement accounts are not included in fund balance groupings, maintaining compliance with governmental accounting standards and GFOA guidance.
- Reconcile fund balance accounts to the trial balance to confirm alignment and identify any discrepancies early in the reporting cycle, as recommended by GFOA's annual financial close best practices.

Implementing these steps will enhance the accuracy of our financial statements, reduce the need for audit adjustments, and support our commitment to transparency and fiscal responsibility. Adhering to GFOA best practices and GASB standards will further strengthen the City's internal controls and financial reporting framework.

The above matters have been previously discussed with the City's Finance Department, during our final audit exit conferences which was held on October 10, 2025. Should any questions arise about these matters, we will be available for further discussion.

LSL, LLP

Irvine, California
December 22, 2025