



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Fahey and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Bruce Moe, Finance Director
Russell J. Morreale, Assistant Finance Director
Henry Mitzner, Controller

DATE: December 20, 2005

SUBJECT: Presentation of the Comprehensive Annual Financial Report (CAFR) for June 30, 2005

RECOMMENDATION:

The Finance Subcommittee and staff recommend that the City Council receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2004-2005.

FISCAL IMPLICATION:

This action tonight provides the City's annual audited financial statements for the 2005 fiscal year with no resulting financial or budgetary requests. Although financial challenges do exist, the City had a good year as evidenced by a General Fund surplus of \$3 million which has come in above original 2005 budget projections.

BACKGROUND:

Attached is the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005 (Attachment "B"). This independent audit report is prepared by our auditors, Lance, Soll and Lunghard, the certified public accountancy firm selected in FY 2003-2004. We would like to take this opportunity to acknowledge the professionalism and diligence displayed by our auditors in the planning, execution and completion of the FY 2004-2005 audit. Their hard work was completed with the utmost professionalism and teamwork, while maintaining their objectivity. It is also the third year of the new requirements of the Governmental Accounting Standards Board (GASB) pronouncement No. 34, which are discussed in more detail below. The report was discussed with the City's auditors at the November 22nd meeting of the Finance Subcommittee.

DISCUSSION:

Overall Summary of Results:

Finance is pleased to report that the City has again attained an unqualified audit opinion validating the fair and accurate presentation of our financial status as of June 30, 2005. As the CAFR indicates, 2005 ended with the City in good fiscal health. The City again experienced a strong General Fund operating surplus (\$3 million); governmental revenues continue to be stable, with growth coming mainly from property tax; hotel tax, and service revenues. We are pleased to report that we met budget projections in all areas, validating the financial budget and planning process. Governmental fund balances have been maintained in line with financial policies, adopted reserve designations have been preserved, and

adopted budgetary and investment guidelines have been met as a result of prudent fiscal management and controls citywide. This year's report again validates the City's financial accounting systems, procedures and management controls.

As reported last year, this CAFR again reflects rising operational costs in the areas of salaries, benefits, and insurance which remain as challenge areas to be addressed in prospective budget years. In fact, a review of the City's Insurance Fund reveals a negative equity balance when both short and long term liabilities are considered. This is a condition which will require a prospective response in the 2006 budget year.

As we look forward, it appears that last year's State budget crisis is beyond use although our FY2005-2006 budget does include an ERAF shift of \$650,000. Additionally, cash flows will be impacted with the dollar for dollar swap of sales tax for property tax, due to the variations in timing of receipt of those payments (twice annually versus monthly). On the other hand, we are pleased to report that the State made an early payment to the City of the 2003 VLF GAP loan, unexpected in FY2006.

Organization of the Document:

The organization of the document is as follows:

The *Introductory Section* includes the City's transmittal letter providing an executive summary of the financial and economic events characterizing the 2004-2005 fiscal year. A review of the transmittal letter will help the reader understand the City's organizational structure and provides performance highlights of the City's most significant funds and operations.

The *Financial Section* presents the independent auditors' report. The auditors' report contains two main sections: the Audit Opinion and the Management Discussion & Analysis (MDA). *The Audit Opinion*, worded in an industry standard format, provides a statement by the auditors attesting to the fair presentation of financial data in conformity with generally accepted accounting principles and government accounting standards. The Management Discussion & Analysis (MDA), which was a new requirement under GASB 34, is a key report for our readers. The MDA is intended to serve as an introduction to the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements, which is an overview and analysis of the financial activities of the City of Manhattan Beach for the fiscal year ended June 30, 2005.

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. This section is new and very different from the traditional budgetary fund presentation made in the past. This is because these statements utilize full accrual accounting requiring the capitalization of assets and fund consolidations much like is done in private industry. The statements included in this section are the *statement of net assets* and the *statement of activities*. Both government-wide statements are designed to show the annual increase or decrease in *net assets* and, in doing so, 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 general government, public safety, public works, planning, building and safety, and recreation. The City's business-type activities include water, waste water, storm water and parking.

The *Fund Financial Statements* is the section that reports on the City's operations on a traditional

modified accrual and budgetary basis. A key document to view in this section can be found on pages 30 and 31 which present, at a glance, the City's actual performance for the year for all governmental funds. Changes of note in the section include: (1) the inclusion of reconciliations between the government wide and fund statements necessary because of the difference in accounting methods and presentation between the two, (2) the grouping of Special Revenue Funds as "non-major" governmental funds given their relative materiality, and (3) the more detailed presentation of the City's business-like enterprise funds. A final major difference deals with the change in how fund balance reserves and restrictions are presented. GASB 34 limits the presentation of fund restrictions to very specific items resulting in much larger unreserved balances as compared to what is presented in the budget and pre-GASB 34 CAFR's. This being the case, the reader is well served to view note #7 to get a sense of fund balances before and after restrictions and major City Council designations. Once these designations are considered, the unreserved balances clearly line up on an historical and budgetary basis in conformance with the City's fiscal and capital plan.

The *Notes to the Financial Statements* section follows, which provides financial disclosures about the City's financial statements. With the introduction of GASB 34 in recent years, we urge readers to closely review these notes which have been modified for this new accounting standard. Those familiar with our pre-GASB 34 statements will note that the presentation of long term liabilities and fund balances has been modified to take on a more citywide flavor. The notes now reflect the newly required GASB 34 citywide capital asset valuation which is presented in the highlight of changes portion of this section. Note #5 now presents the value of all owned assets citywide and the impact of the GASB 34 valuations required as part of this implementation.

This section is followed by the *Combining Financial Statements & Schedules* and the *Statistical Section*. The combining statements are presented in the traditional fund manner and report on the detail of all non-major funds which appear on a combined basis in the front of the document. The Statistical Section, not subject to audit investigation, provides general trend information presenting financial and economic data over time.

Management Letter Findings:

The independent auditors' report typically includes a formal Management Letter indicating internal control areas which are in need of improvement. In the current year, no management letter points were found as result of the internal control reviews indicative of the City's strong internal controls.

CONCLUSION:

The Finance Subcommittee and staff recommend that the City Council receive and file the 2004-2005 CAFR.

Attachments: A: Audit Statement of Responsibilities
B: June 30, 2005 Comprehensive Annual Financial Report
C: Internal Control Compliance Letter

A: Audit Statement of Responsibilities



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

October 25, 2005

Finance Subcommittee
City of Manhattan Beach
Manhattan Beach, CA 90265

We have audited the financial statements of the City of Manhattan Beach for the year ended June 30, 2005, and have issued our report thereon dated October 20, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing 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 standards 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 Manhattan Beach. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Manhattan Beach'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.

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 Manhattan Beach are described in the notes to the financial statements. We noted no transactions entered into by the City of Manhattan Beach 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.





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Manhattan Beach, CA 90265

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Where applicable, the City utilized accounting estimates for depreciation on City assets and for reporting incurred but not reported amounts relating to the liability for claims and judgments. The methodology used during this audit is consistent with that of prior years. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



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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 the Finance Subcommittee and management of the City of Manhattan Beach 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

**B: June 30, 2005 Comprehensive Annual
Financial Report**



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December 20, 2005

Honorable Mayor, Councilmembers and Citizens of Manhattan Beach
Manhattan Beach City Hall
Manhattan Beach, California 90266

The Comprehensive Annual Financial Report (CAFR) of the City of Manhattan Beach for the Fiscal Year Ended **June 30, 2005 (FY2005)** is hereby submitted. This report has been prepared in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). **The FY2005 report marks the third year of GASB statement 34 (GASB 34) implementation.** Transitioning to this new format involved several major steps including: completion of a citywide identification and assessment of infrastructure valuations; completion of a utility cost allocation study; development of new accounting models to facilitate the new reporting; a shift in audit planning; redesign of the published CAFR; and introduction of newly developed asset valuation and depreciation policies. In FY2005, these practices were continued in compiling this year-end report.

In accordance with the above-mentioned guidelines, the accompanying report consists of three sections. The **Introductory Section** contains this transmittal letter, a list of the City's principal elected and appointed officials, and an organizational chart. The **Financial Section** consists of the Independent Auditors' Report, the Management Discussion and Analysis, the Government Wide Financial Statements, notes to the financial statements, and combining financial statements and schedules. The **Statistical Section**, which is not audited, contains selected financial and demographic information, generally presented on a multi-year basis.

SERVICE EFFORTS AND MAJOR INITIATIVES

Service Efforts

In FY 2005, the City of Manhattan Beach continued to provide a high level of service to its residents and citizens. The City adhered to its financial policies and adopted financial plan as evidenced by the budget-to-actual reporting presented within this document. \$58.7 million was originally budgeted to support the City's many services and programs. Additionally, \$29.8 million in capital projects was budgeted for the year. Budgetary limits were adhered to on a citywide basis with the General Fund reporting a healthy surplus once again. All funds performed as expected in line with the City's financial policy guidelines and reserves have been maintained.

Some of the key capital improvements expenditures in 2005 include the following:

- \$15.6 million of construction costs for the new Police & Fire facility beyond design and engineering costs bringing this project to over 60% completion.
- \$1.2 million for reconstruction of the El Porto parking lot.
- \$1.4 million of citywide street improvement projects, the bulk of which related to the Aviation resurfacing, Artesia Boulevard improvements, various traffic signal improvements, construction of the new 13th Street extension, and Strand Walkway improvements.
- \$534,000 towards the completion of the Metlox public plaza. With the completion of the parking structure in the prior year, the development is scheduled to open in December 2005.
- \$500,000 in Water, Storm and Wastewater system improvements mainly related line replacements and valve and control upgrades.

Major Initiatives

In FY 2005, the City of Manhattan Beach made significant progress on many of the key work plan items identified in the operating budget. A recap of these accomplishments follows:

Public Safety Facility Project: In the current year the City completed the financing plan to fund the construction of the new public safety facility. The project budget is valued at \$41 million including costs incurred to date. The City designated specific reserves of \$25 million in the Capital Projects Fund for this improvement. In December 2004, the City issued \$12.9 million in fixed rate Certificates of Participation which fully funds the construction of the new Police and Fire facility. The resulting debt service will be financed through dedicated revenues earmarked within the Capital Improvement Fund. \$25 million in costs have been incurred on this project through June 30, 2005 and the project remains within budget and is targeted for completion in 2006.

Metlox Improvements and Development: The City held a grand opening for the Metlox parking structure in January 2004 and another grand opening for the public plaza and retail phases in December 2005. The Metlox parking structure provides 460 spaces, serving the new development as well as the entire downtown. It was completed at a cost of \$14.6 million. The private retail development includes a hotel, retail, restaurant and office space elements. This multi-million dollar project is expected to have a positive economic impact, adding to the City's ground lease, property, hotel, and retail tax revenue base. In concert with this private phase, the City completed the construction of a 40,000 square foot town square and retains ownership of the underlying land, parking facilities and public open space. This public improvement was financed through the issuance of \$11.6 million in Certificates of Participation, issued in January 2003, and the resulting debt service will be paid through dedicated Parking Fund revenues. All debt and capital transactions have been recorded in the parking enterprise fund and are backed by the strength of the City's overall credit.

Strand Improvement Project: In FY 2005-2006 the City budget appropriated an additional \$1.5 million which sets aside all reserves necessary to fund this \$4.5 million project. This capital project has been cash funded in entirety. This project involved years of planning, community discussion and outreach before construction commenced in FY 2005. In the current year construction costs of

approximately \$400,000 were incurred on this exciting improvement which spans the entire length of the Strand. The project involves the replacement of the cement walkways, upgrades of all lighting and electrical elements, the renovation of drainage systems, the introduction of viewing alcoves, updates to trash receptacles, and replacement of exiting benches.

Utility Under-grounding: In the prior year the City successfully facilitated the creation of three beach front utility under-grounding districts valued at approximately \$5 million. Assessment District bonds were issued in August 2004 culminating several years of coordination by our City's Public Works department. Debt service for these bonds will be paid entirely through participating homeowner property tax assessments. The resulting bond proceeds reimbursed the City for all originating costs incurred in the project lifecycle. In the end result, the assessment district formation process was received extremely well with approval percentages in the 70% range for all districts. All project dollars have been deposited with assigned trustee depositories and construction began in FY 2005. In November 2005 an additional two districts were approved by the voters valued at approximately \$14 million. The debt financing process for these newest districts is in process and expected to be completed in January 2006.

Financial Credit Rating: The City obtained a financial credit rating in anticipation of issuing bonds for the construction of public improvements at the Metlox site as well as the new Police & Fire facility. The City received the highest possible rating, "AAA," from both S&P and Fitch. With this good news, the City proceeded to issue bonds for both facilities starting with Metlox Certificates of Participation in January 2003 at a size of \$13.3 million (including all issuance costs, reserve and capitalized interest requirements). The bond issuance for Police/Fire, took place in November 2004 at a value of \$12.9 million. The City realized a healthy General Fund surplus these past years and used these resources to increase cash funding and reduce the final debt sizing. FY 2004 surplus reserves were also used to increase the Police/Fire project budget contingency levels. The City's credit rating was updated with this latest bond issuance and again received a rating of "AAA" from S&P and Fitch. Furthermore, we are very pleased that a similar rating was received from Moody's as part of this bond sale.

Nearly all FY 2004-2005 City work plan items were completed including:

- Selection of a 9/11 memorial to be located at the new Police & Fire facility.
- Introduction of streaming video of City Council and Planning Commission meetings, thereby offering greater public access to those proceedings.
- Continued excellent day-to-day service delivery as shown by the resident satisfaction survey results. Once again, we ranked as one of the best cities in terms of satisfying our residents' needs. Our overall score of 94% is among the highest when compared with similar surveys of cities in the State which show an overall satisfaction rating of 76%;

FINANCIAL CONTROLS AND PROCEDURES

Financial Policies: Throughout the years, the City of Manhattan Beach has followed a fiscally conservative philosophy of building and maintaining healthy financial reserves. This practice has allowed the City to continue providing quality services to its residents in a time when many local agencies were being forced to cut back due to fiscal constraints. In 1997-1998, the City Council approved the City's first set of financial policies, designed to promote sound financial management and ensure that the City's fiscal integrity remains intact as staff and Councilmembers change. This

Comprehensive Annual Financial Report reflects the implementation of these financial guidelines and presents all fund reserves and designations in an effort to define fund balance commitments and obligations as of the financial report date.

Internal Control Structure: City management is responsible for establishing and maintaining fiscal internal controls designed to safeguard the assets of the government from loss, theft or misuse, and to ensure that accounting data is accurately compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management.

Budgetary Controls and Changes: The City of Manhattan Beach maintains strong budget controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Budget control is primarily maintained at the fund level in the governmental fund types. The City maintains a centralized purchasing function as one method of accomplishing budgetary controls. All purchase orders are reviewed by Purchasing and Finance management to assure adequate budget funding before binding commitments are finalized. Additionally, all machinery and equipment purchases are processed through centralized warehouse receiving to further strengthen internal controls. The City's financial software includes a full encumbrance purchasing accounting system with real time approval and budget checking capabilities. Full encumbrance accounting allows for the speedy identification of fund obligations at the time of requisition, providing tremendous budgetary control. The Comprehensive Annual Financial Report isolates all encumbrance obligations existing at June 30, 2005, related to governmental funds, and presents them as fund balance reserves on the respective balance sheets.

Cash Management: It is the City's policy to invest all temporarily idle short-term funds and longer-term reserves in a manner that will maximize return without sacrificing security and jeopardizing liquidity requirements. Idle funds are invested in accordance with the State's Government Code and a formal investment policy which is adopted annually by the City Council. The policy allows investments in a variety of specific instruments such as Certificates of Deposit, Bankers Acceptances, U.S. Government and Agency securities, Repurchase Agreements, Commercial Paper, and the State's Local Agency Investment Fund.

Risk Management. The City is a member of the Independent Cities Risk Management Authority (ICRMA), a joint powers authority consisting of twenty-eight medium-sized California municipalities, for the purpose of pooling the City of Manhattan Beach's risk for general liability losses with those of other member cities. The City's self-insured retention is \$500,000 per occurrence for Liability and \$750,000 for Worker's Compensation. Under ICRMA, insurance coverage in excess of the self-insured amount is provided up to a limit of \$100,000,000. Premiums for excess insurance coverage are set annually based upon actual claims experience as well as other factors.

EXECUTIVE FINANCIAL OVERVIEW

This top level overview is presented as a supplement to the more detailed and comprehensive analysis presented in the Management Discussion and Analysis (MDA). As such it serves to highlight key financial performance indicators for our major funds. We encourage all readers to review the MDA for a further analysis of the City's financial condition.

General Fund

The General fund is the primary operating fund of the City of Manhattan Beach and the 2005 year reflects very good financial results. The fund again outpaced expectations coming in with an operating surplus of \$3 million. We attribute this performance to our continued adherence to prudent financial planning and policy setting, conservative budgeting, and faithful monitoring and stewardship by all city staff. At the end of the current fiscal year the total General Fund balance equaled \$17.4 million after \$6.9 million of net transfers out primarily to the Capital Improvement and Police/Fire Construction Funds. These transfers, accumulated through prior year surplus amounts, were utilized to reduce the bond sizing for our new Police and Fire facility. Under the GASB 34 model this fund reports an unreserved fund balance of \$16.4 million before policy and City Council designations. On a governmental basis, including financial policy, liability and uncertainty reserve limits, an unreserved and undesignated fund balance of \$944,525 remains available for use at City Council's discretion as of year end.

During the current fiscal year, General Fund revenues exceeded expenses by approximately \$3 million. After transfer activity, the fund balance decreased by \$3.9 million. The transfer activity included:

- \$3,325,000 transfer out of the General Fund into the Police/Fire Construction Fund for the Public Safety Facility as planned for in the City budget. This amount also included an approved project budget contingency amount increase of \$1,325,000.
- \$2,463,164 transfer out of the General Fund into the Capital Improvement Fund to (1) increase the designated Strand Improvement Reserve by \$1,596,369 to the approved \$4.5 million level and (2) \$866,795 to prepay capitalized interest to reduce long term debt service payments for the Police/Fire bonds.
- \$695,000 out of the General Fund to the Pension Fund to fully fund the benefit liabilities resulting from newly awarded Police Retirement Health benefits.
- \$355,000 transfer out of the General Fund to the Insurance Fund to re-establish fund working capital policy levels.
- \$150,000 transfer out of the General Fund to the Storm Water Fund in support of fund levels required to maintain operations for the assessment fund. Increasing assessment levels in this particular fund are needed to cover rising utility and maintenance costs but local governments are precluded from doing so subject to a proposition 218 vote of the people.

- \$5,533,330 transfer out of the Capital Improvement Fund to the Police and Fire facility Construction Fund as part of a planned and budgeted funding of accumulated project reserves.
- \$293,000 transfer out of the El Porto County Lot Fund to the Capital Improvement Fund to pay for the costs associated with the reconstruction of El Porto parking lot.
- \$33,444 transfer out of the Underground Utility Construction Fund to the General Fund to reimburse the city for bond issuance costs.

Although the rate of growth has slowed from early 2000 levels, the City's General Fund revenue base continues to do well. This can be noted by the following trends:

Revenue	2004 Actual	2005 Actual	Variance
Property Tax	\$11.1 M	\$11.7 M	\$.6 M
Sales Tax	7.3 M	7.3 M	.0 M
Hotel Tax	1.9 M	2.1 M	.2 M
Business License Tax	2.1 M	2.3 M	.2 M
License and Permits	1.6 M	1.5 M	(.1 M)
Fines	2.2 M	1.8 M	(.4 M)
Interest and Rent	2.3 M	2.3 M	.0 M
Vehicle In-Lieu	1.6 M	2.3 M	.7 M
Services	6.1 M	7.3 M	1.2 M

On an overall basis, General Fund revenues increased moderately, 6%, and came in at 104% of our annual budget estimates with property tax being the clear front runner. Sales tax remained relatively flat while Hotel Tax showed a strong gain in contrast to the past two years. Charges for services were bolstered by the completion of a new utility cost allocation study in FY 2003 and robust recreation service activities. Additionally, vehicle registration fee collections are up after last year's State deferral of such revenue. On the other side of the equation, interest income has fallen heavily as predicted given the large use of cash reserves, only to be offset by unrealized portfolio market value gains relative to last year. Although no dramatic increases were noted, these results are quite reassuring considering the challenges that faced us at the State level those past two years.

General Fund expenditures came in 4% below budget resulting in the surplus noted above. On the other hand, compared to last year, expenses have risen by 9%, or \$3.1 million, mostly driven by salary, pension, and insurance costs. Clearly, rising costs are a significant challenge that reinforces the need to maintain prudent, proactive and conservative planning while maintaining tight budgetary controls. Maintaining such controls is critical to assure healthy surplus margins in future years. Although the current year performance is strong, the rate of expense increase outweighs the rate of revenue growth which is a trend worthy of our attention.

Other Funds

Capital Improvement Funds

The past two years saw the introduction of two new funds to this category. In FY 2004 the Police and Fire Construction Fund (PFC) was added as well as the Utility Under-Grounding Fund (UAD).

These funds were added to manage the construction of the two related major capital projects. The previously established Capital Improvement Fund (CIP) was originally created to drive capital planning for general government operations and continues in this same capacity.

In FY 2005, the CIP Fund performed as expected and is well positioned to fund our most important capital infrastructure projects. Dedicated revenues in this fund amounted to \$1.1 million, grants another \$1 million, and capital expenditures equaled \$2.2 million. This fund transferred \$5.5 million to the newly create PFC Fund for the final planed contribution of reserves for the new safety facility.

At June 30, 2005 the total balance in the CIP Fund was \$7.4 million. Of this balance, \$6.1 million has been specifically earmarked for planned infrastructure projects and restricted bond cash leaving an unreserved and undesignated balance of \$1.3 million. Key designations at year end include:

- \$3.8 million for improvements to the Strand walkway
- \$1.3 million for the Police/ Fire facility cash bond reserves
- \$700,000 to complete the El Porto Wall
- \$100,000 for improvements to Artesia Boulevard

At the end of the current fiscal year the total fund balance in the PFC Fund was \$17.5 million which is completely dedicated for the construction of the new facility. This balance reflects the transfer in of \$5.5 million from the CIP fund, reduced by current year construction costs. \$25.2 million has been expended on this project from inception through June 30, 2005.

At the end of the current fiscal year the total fund balance in the UAD Fund was \$661,402 reflecting trustee held bond reserves resulting from bond issuance. Bonds were issued in the current year making up the balance of the \$5.1 million project cost beyond homeowner prepayments. The total amount of cash holdings in this fund is restricted in use.

Special Revenue, Internal, and Enterprise Funds

All other Governmental and Business Type funds performed within budget and have met financial projections and expectations. As has been the trend in recent years, Workers Compensation claims and reserves continue to climb at alarming rates giving rise to the need to increase departmental charge outs and augment fund balances. Although this fund's balance remains within fiscal policy levels, long term liabilities cause a deficit in the total fund balance. Staff will be adjusting prospective estimates this coming budget year in response to this trend and continuing challenge. Our City, along with the State, has identified rising insurance costs as one of the financial challenges in future years. Ultimately the solution to this issue can only come through legislative change at the State and/or Federal level.

Trust and Agency Funds

In several cases, the City acts as a custodian of funds held for the benefit of others which mostly relates to the administration of employee pension and 401(a) deferred compensation plans. All such plans funding requirements have been maintained. City Plans include the supplemental retirement and single highest year programs - dormant plans which were previously offered by the City. It is significant to note that this financial report does not include the value of trust holdings in the

employees' 457 deferred compensation plan valued at \$12.5 million at June 30, 2005. This recognizes enacted legislation establishing the City as a plan trustee and protecting these employee-owned assets from external creditors.

For the first time this year, the trust and agency fund group includes funds held in trust on behalf of the under-grounding assessment districts. This fund accounts for assessment collections and the related debt service payments.

THIRD PARTY ADMINISTERED PENSION PLANS

Defined Benefit Pension Plan: The City contracts with the California Public Employees Retirement System (CalPERS) for certain retirement, disability, death and survivor benefits for qualified employees. The annual actuarial valuation by CalPERS changes from year to year, and the City's contribution rates are modified accordingly.

Retirement Plan for Part-Time Employees: From 1990 to 1997, the City of Manhattan Beach provided its own retirement plan for part-time, seasonal and temporary employees not eligible for participation in the California Public Employees Retirement System. This plan was eliminated in June 1997, as the City opted to provide the Public Agency Retirement System (PARS) program instead.

Significance of GASB 34 on Capital Asset Presentation

Although many impacts of GASB 34 on these financial statements were discussed above, one would be remiss not to point out the tremendous reporting impact that this pronouncement has on the City's valuation and treatment of capital assets. In this regard we encourage the reader to review the notes and the Management Discussion and Analysis for this important information.

GASB 34 now requires that local governments quantitatively value and capitalize all owned asset including capital infrastructure. This infrastructure includes such highly visible and material items as streets, walkways, lights, signs, buildings, etc. Consequently this pronouncement requires that these assets be depreciated in full compliance with accrual accounting methodology. This presentation of capital assets was always required of our enterprise funds in the past and now it is required when reporting the government wide financial statements for all such funds.

In the end result a valuation of all City infrastructure was completed and these results have been included in the financial statements. Government wide capital assets have been valued on a gross basis at \$170 million and at \$128 million on a net basis after depreciation. These values are presented at original estimated cost and, as such, their replacement cost would be considerably higher. Increases over last year exceeded \$17 million after depreciation most of which results from the \$15.6 million capitalization of Police and Fire facility improvements. The remaining asset increase resulted from improvements to city roadways, parks, utilities, and completion of Metlox public improvements.

OTHER INFORMATION

Independent Audit: The accounting firm of Lance, Soll & Lunghard, LLP, was selected by the City to perform the annual audit. The auditors' report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of the City's Comprehensive Annual Financial Report. The City was not required to conduct a single-audit, an audit of Federal Grant Funding, and, as such, no separate single audit opinion and report is included.

Acknowledgments: Preparation of this report could not have been accomplished without the efficient and dedicated services of the Finance Department staff. We would like to express our appreciation to all members of the department, particularly Russell Morreale, Henry Mitzner, Sherry Morelan, Steve Charelian, Luisa Camba, Sande Johnson and Eugene Wee who assisted and contributed to its preparation. A special thanks is extended to Lance, Soll & Lunghard, LLP our independent auditors, for their professionalism and diligence in preparing this year end financial report and again to Russell Morreale and Henry Mitzner for coordinating this audit transition in this third year of GASB 34 implementation. We would also like to thank the Mayor, members of the City Council, and the City Treasurer for their leadership and support, without which the preparation of this report would not have been possible.

Geoff Dolan, City Manager

Bruce Moe, Finance Director

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, 2005. 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 xi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Manhattan Beach exceeded its liabilities, at the close of the fiscal year ended June 30, 2005, by \$158,092,228 (*net assets*). Of this amount, \$41,125,474 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's capital assets increased by \$17,309,954. This increase is mostly attributable to the construction completed to date for the new Police and Fire facility in the amount of \$15,571,875. Other increases include improvements to streets and roadways, utility systems, the Metlox public plaza, and City parks.
- The City's total net assets increased by \$5,146,279. This increase is attributable to several factors primarily including the results of operations combined with the effect of the difference in accounting for capital assets within governmental funds versus the statement of activities. Under the new GASB 34 model, the statement of activities is presented on a full accrual basis calling for the capitalization of all capital and infrastructure costs as opposed to the expenditure of such costs in the individual governmental funds.
- As of June 30, 2005, the City's governmental activities reported combined ending net assets of \$121,270,396, an increase of \$3,150,967, in comparison with the adjusted opening balance. \$26,283,728 (*unrestricted net assets*) is available for spending at the government's discretion. Further to this point, it is important to note that a good majority of these dollars are derived through special project funds and, as such, their use is limited to specific types of applications. Additionally, this unreserved balance includes several material City Council directed capital project designations which have resulted from a long-standing infrastructure improvement plan.
- As of June 30, 2005, the City's business activities reported combined ending net assets of \$36,821,832, an increase of \$1,169,224 in comparison with the adjusted opening balance. \$14,842,196 of this balance is unrestricted to be used in the future support of the operational and capital needs of these enterprises. This unreserved balance includes several material City Council directed capital project designations which have resulted from a long-standing infrastructure improvement plan.
- As of June 30, 2005, the balance in the General Fund was \$17,440,250, or 46% (5.5 months), of total General Fund expenditures. The General Fund reported excess revenues over expenditures of \$3,004,345 before net transfers out of \$6,954,720.
- Transfers out of \$6,988,164 from the General Fund were made to pay for major capital initiatives including construction of a new Public Safety facility, associated bond costs, and improvements to the Strand Walkway, funding newly established safety post retirement health benefit obligations, and seeding required working capital levels in the City's insurance fund.
- The City's total bonded debt increased by \$12,450,000 (47%) during the current fiscal year. This increase is primarily attributable to the November 2004 issuance of Certificates of Participation (\$12,980,000) for the long planned construction of the Police and Fire facility. This increase is offset marginally by the scheduled pay down of issued bonds in the General, Water, Wastewater and Parking funds. Long term insurance claim reserves experienced an increase of \$460,463 or

City of Manhattan Beach Management's Discussion and Analysis

23% mostly due to increased workers compensation reserves. Other long term liability balances, mostly made up of employee leave balances, remain near 2004 levels.

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, 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).

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 general government, public safety, public works, planning, building and safety, and recreation. The City's business-type activities include water, wastewater, storm water and parking.

The government-wide financial statements can be found on pages 19 to 21 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 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

City of Manhattan Beach Management's Discussion and Analysis

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 Manhattan Beach maintains 12 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 and the Capital Improvement funds, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* 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 28 of this report.

Proprietary funds: The City of Manhattan Beach maintains two types of *proprietary funds*. Services for which the City charges customers a fee are generally reported in the City's *enterprise funds*. These proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. 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-fund charges have been eliminated accordingly.

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 elsewhere in this report. Five of the City's seven enterprise funds are considered major funds and presented as such in the fund financial statements. The two nonmajor funds, County and State parking lots, are presented individually in the combining statements.

The combining statements referred to earlier in connection with nonmajor 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 76 to 99 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 40 to 73 of this report.

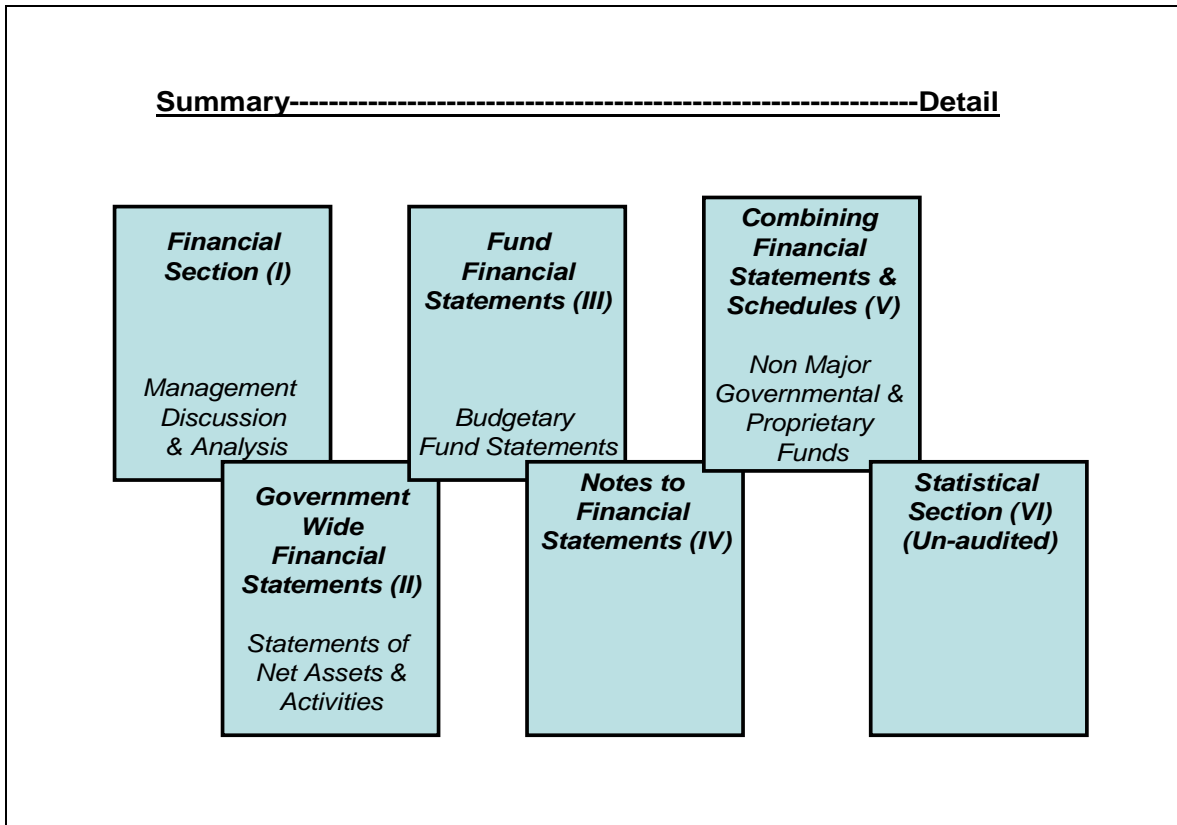
The City as Trustee

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.

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 purpose.

**City of Manhattan Beach
Management's Discussion and Analysis**

In summary the various sections of this financial report are arranged as follows:



FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

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 Manhattan Beach, assets exceeded liabilities by \$158,092,228 at June 30, 2005.

By far, the largest portion of the City's net assets (56%) 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
Management's Discussion and Analysis**

City of Manhattan Beach Net Assets

	Governmental Activities 2005	Business- Type Activities 2005	Total 2005	Total 2004
Current and other assets	\$ 63,736,173	\$ 20,525,123	\$ 84,261,296	\$ 82,136,147
Capital assets	92,510,048	35,013,955	127,524,003	110,214,049
Total Assets	156,246,221	55,539,078	211,785,299	192,350,196
Long-term liabilities outstanding	26,020,593	16,812,289	42,832,882	29,700,696
Other liabilities	8,955,232	1,904,957	10,860,189	9,703,551
Total Liabilities	34,975,825	18,717,246	53,693,071	39,404,247
Invested in net capital assets	70,373,993	17,903,955	88,277,948	83,541,551
Restricted	24,613,125	4,075,681	28,688,806	6,040,763
Unrestricted	26,283,278	14,842,196	41,125,474	63,363,635
Total Net Assets	\$121,270,396	\$ 36,821,832	\$ 158,092,228	\$ 152,945,949

A portion of the City's net assets (4%, or \$5,493,705), within the governmental activities category, represent Special Revenue Fund resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$41,125,474) may be used to meet the government's ongoing obligations to citizen services and creditors. A significant portion of this remaining balance is also subject to City Council directed capital project designations and policy reserves as indicated in the financial Note 7.

Statement of activities: On a City-wide basis, net assets increased by \$5,146,279. Governmental activities, as a group, increased by \$3,977,055 and accounted for most of the growth in the net assets of the City.

**City of Manhattan Beach
Management's Discussion and Analysis**

City of Manhattan Beach Changes in Net Assets

	Governmental Activities 2005	Business- Type Activities 2005	Total 2005	Total 2004
Program revenues:				
Charges for services	\$ 11,412,225	\$ 13,653,362	\$ 25,065,587	\$ 24,178,550
Operating contributions and grants	2,571,735	20,088	2,591,823	2,121,460
Capital contributions and grants	4,795,086	21,807	4,816,893	2,648,432
General revenues:				
Property taxes	11,793,140	-	11,793,140	11,223,986
Other taxes	14,576,155	-	14,576,155	13,519,021
Motor Vehicle In Lieu	2,472,372	-	2,472,372	1,634,713
Other	2,659,742	450,702	3,110,444	2,880,756
Total Revenues	50,280,455	14,145,959	64,426,414	58,206,918
Expenses:				
General government	7,814,392	-	7,814,392	6,843,576
Public safety	23,756,438	-	23,756,438	19,786,367
Public works	10,355,400	-	10,355,400	6,596,160
Parks and recreation	4,772,150	-	4,772,150	4,300,710
Interest on long-term debt	574,108	-	574,108	137,993
Water, Waste, Storm	-	7,926,665	7,926,665	7,347,450
Refuse	-	3,430,815	3,430,815	3,147,820
Parking	-	1,476,255	1,476,255	1,442,174
Total Expenses	47,272,488	12,833,735	60,106,223	49,602,250
Revenues Over Expenses	3,007,967	1,312,224	4,320,191	8,604,668
Transfers In (Out)	143,000	(143,000)	-	-
Increase in Net Assets	3,150,967	1,169,224	4,320,191	8,604,668
Net Assets - July 1, 2004	117,293,341	35,652,608	152,945,949	144,207,435
Restatement	826,088	-	826,088	133,846
Net Assets - June 30, 2005	\$121,270,396	\$36,821,832	\$158,092,228	\$152,945,949

Key elements of this increase are as follows:

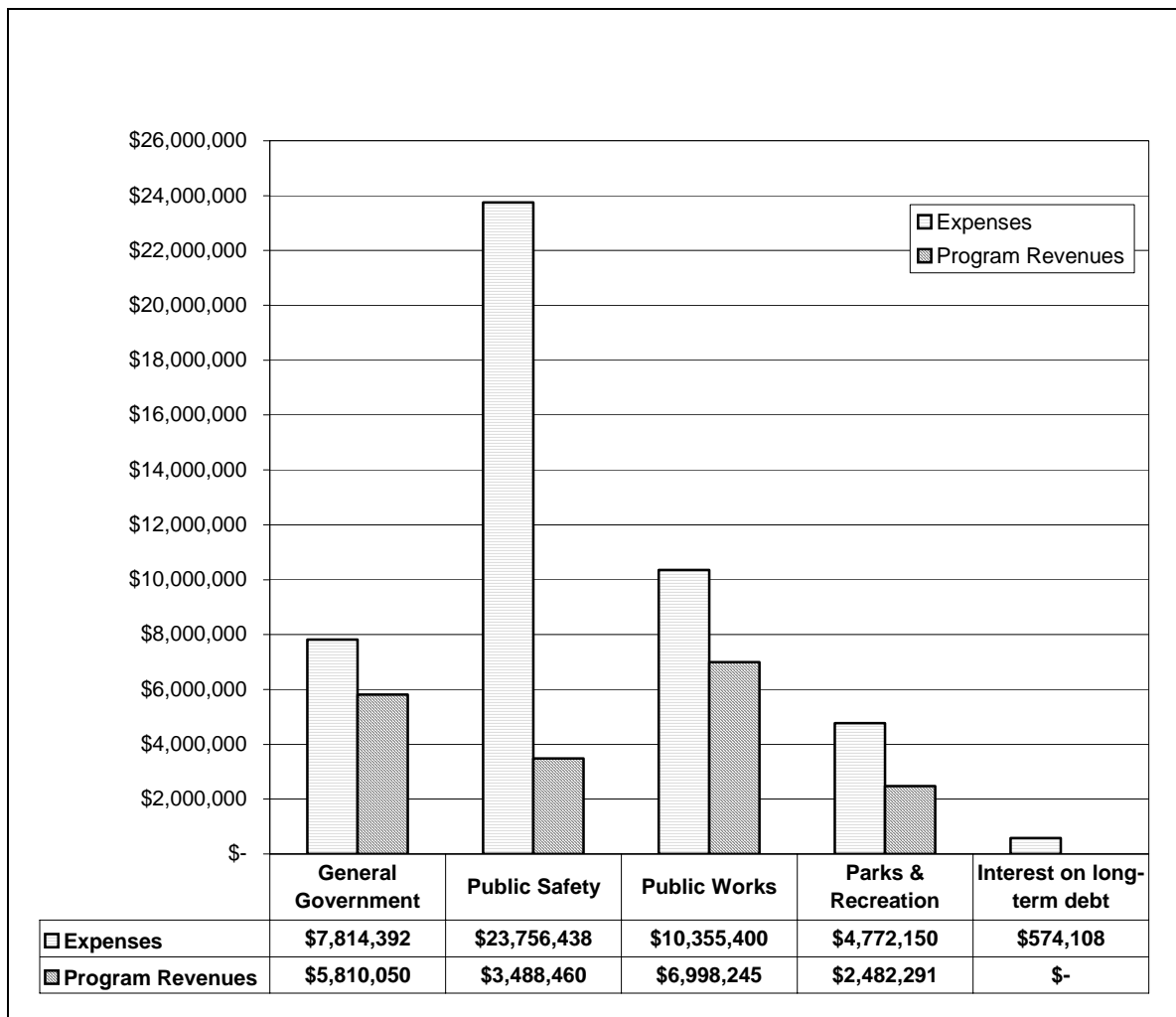
- In 2004-2005, the General Fund reported an operating surplus, before transfers, of \$3 million, which added to the overall strength of citywide net asset balances.
- In 2004-2005, the Utility Funds reported an operating surplus, before transfers, of \$1.3 million, again, adding to the overall strength of citywide net asset balances.
- The use of \$695,000 of from the General Fund to seed the newly established Police retirement health benefit which is recorded in the City's Pension Fund.
- In 2004-2005, the citywide statements reported a \$826,088 positive restatement of beginning equity in recognition of a prior year pre-funding of outstanding PERS obligations in accordance with GASB 27.

**City of Manhattan Beach
Management's Discussion and Analysis**

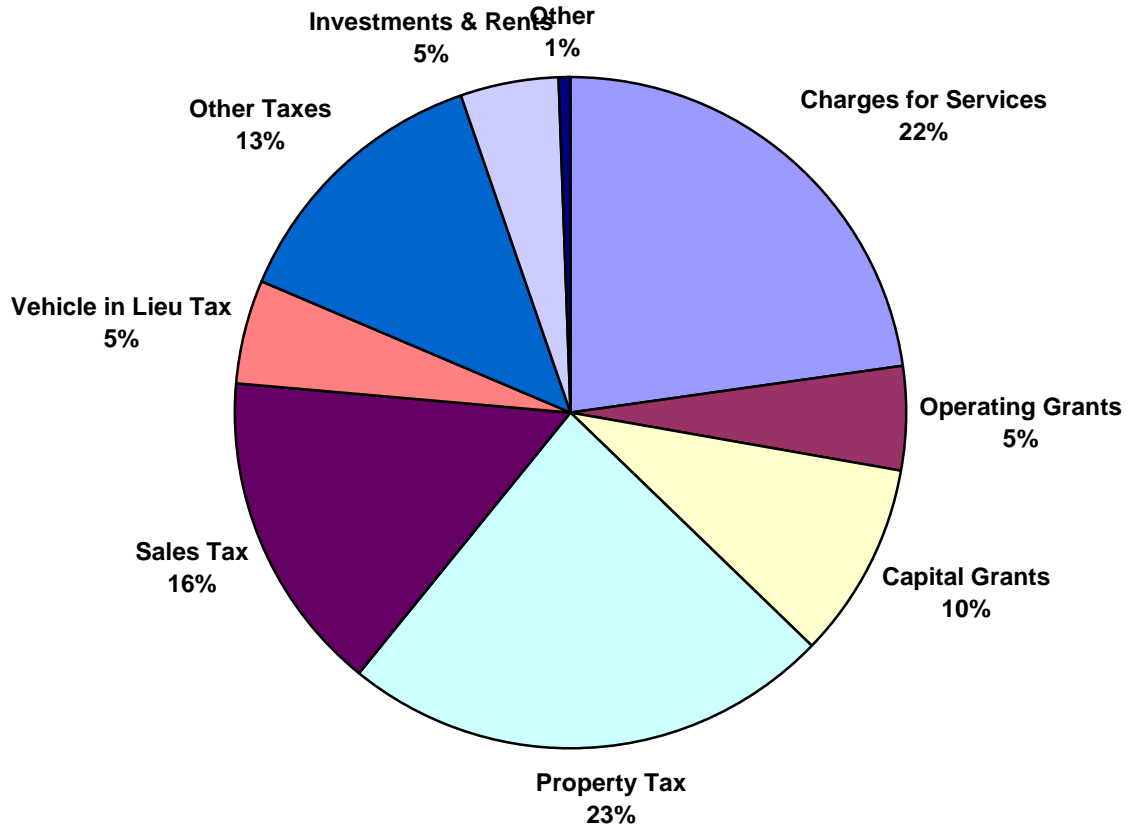
- In 2004-2005, the citywide statements reported \$760,909 of accrued income receivable as a result of the California State budget "Triple Flip" Sales and Vehicle License fee deferral. This is presented as deferred income in the governmental statements and income on a full accrual basis within the citywide statements.
- The difference in the method of accounting for capital assets in the governmental funds versus the statement of activities accounts for an increase of \$17.1 million in net assets considering both capital costs and depreciation. Governmental funds fully expend capital asset costs in the period they are acquired. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives. The use of cash reserves in the current year to fund the above mentioned capital assets results in an offsetting decrease of working capital.
- The difference in the method of accounting for long-term debt in the governmental funds versus the statement of activities accounts for an increase in \$250,000 related to Police & Fire facility, Marine Bond debt, and capital leases. Governmental funds fully expend principal payments in the period they are paid. However, in the statement of activities, such payments reduce the related liability.

Government Activities

Expenses and Program Revenues - Governmental Activities - Fiscal Year 2005



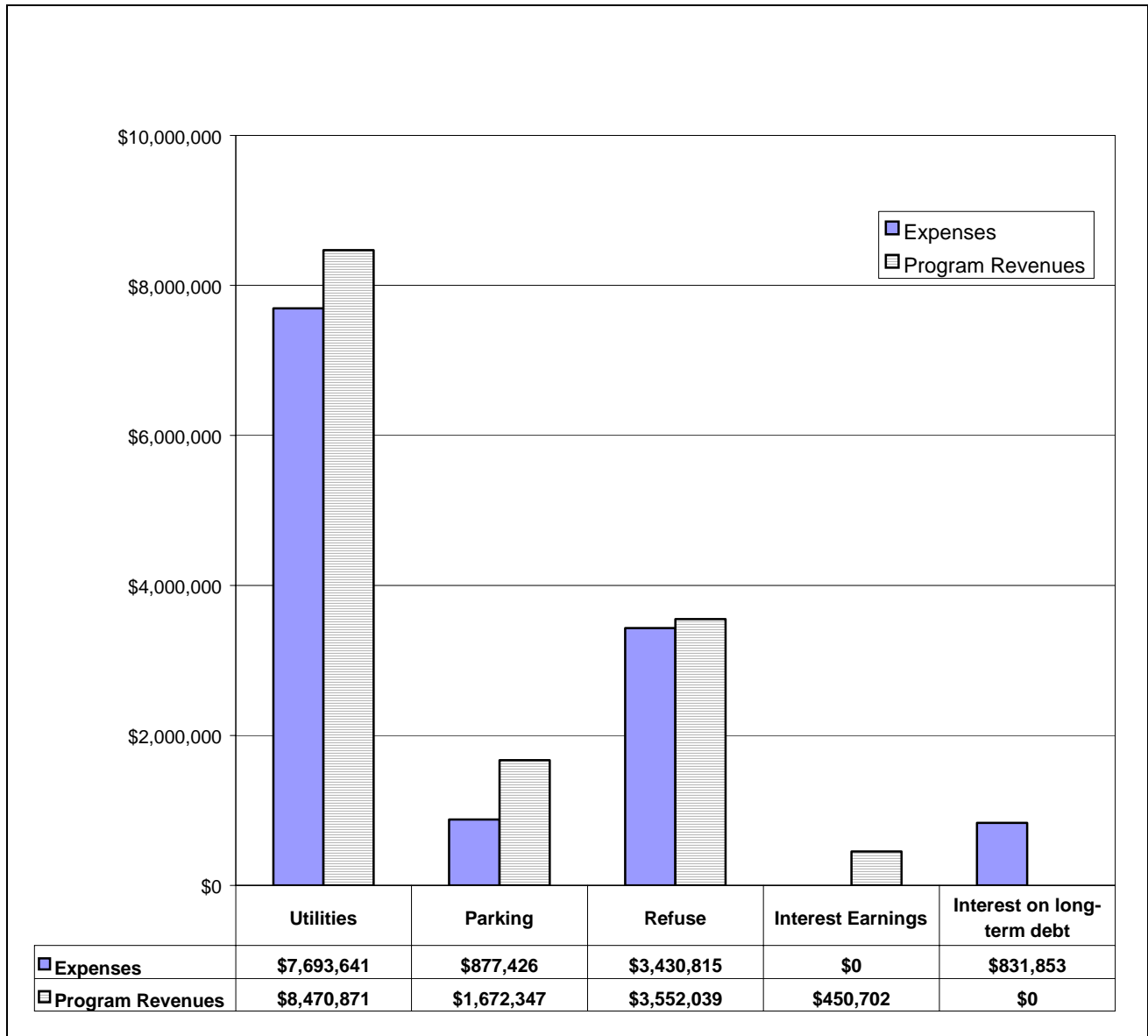
Revenues by Source - Governmental Activities - Fiscal Year 2005



**City of Manhattan Beach
Management's Discussion and Analysis**

Business Type Activities

Expenses and Program Revenues - Business Type Activities - Fiscal Year 2005

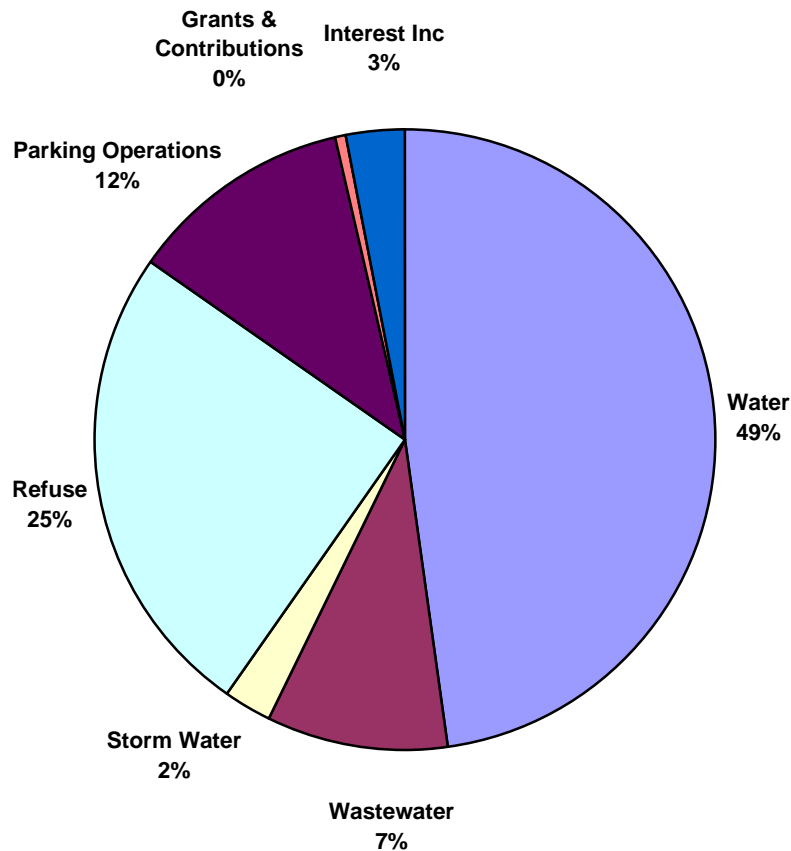


The City's business-type operations include several major service areas:

- Water
- Wastewater
- Storm Water
- Refuse
- Parking

**City of Manhattan Beach
Management's Discussion and Analysis**

Revenues by Source - Business Type Activities FY 2005



In fiscal year 2004-2005, revenues for the City's business type activities amounted to \$14,145,959, including \$41,895 in grants and contributions. All other revenue is derived from operations and investment earnings. Total operating expenses equaled \$12,833,735 for a positive operating income of \$1,312,224 before transfers. When considering the impact of the net transfer out of \$143,000 from the parking funds, net assets increased by \$1,169,224 this current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$48.6 million, a decrease of \$700,000 in comparison with the prior year. Approximately 42% of this total amount, \$20.7 million, constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) liquidate construction contracts and purchase orders of the prior period (\$8.08 million); 2) reserve for prepaid items and debt reserves (\$1.3 million); 3) Restricted Construction cash holdings (\$17.7 million), and 4) \$723,091 for long term receivables.

**City of Manhattan Beach
Management's Discussion and Analysis**

It is important to note that City Council approved a variety of fund designations in adherence to its financial policy requirements and budgetary capital planning initiatives. This is evidenced by the presentation of the components of fund balances as listed in Note 7 of these financial statements. Of the \$20.7 million unreserved governmental fund balance noted above, \$15.5 million has been designated by City Council actions, and \$3 million remain in restricted use Special Revenue Funds. Considering these designations, \$5.1 million in governmental fund balances 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 current fiscal year, unreserved fund balance of the General Fund was \$16.4 million, while total fund balance reached \$17.4 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 43% of total General Fund expenditures, while total fund balance represents 46% of that same amount.

During the current fiscal year, General Fund revenues exceeded expenses by approximately \$3 million. Considering transfer activity out of this fund of \$6.95 million as a result of planned capital project funding, the General Fund balance decreased by \$3.9 million. The current year transfer activity included:

- \$3,325,000 transfer out of the General Fund into the Police and Fire Construction Fund for the Public Safety Facility as planned for in the City budget. This transfer resulted in a reduction in bond requirements, facilitated through the use of prior year surplus amounts, and also increased the construction project budget contingency amount by \$1,325,000.
- \$2,463,163 transfer out of the General Fund into the Capital Improvement Fund to:
 - Increase the designated Strand Improvement Reserve by \$1,596,368 to the approved \$4 million level;
 - To prepay \$866,795 in capitalized interest as a basis for reducing long term debt service payments for the Police & Fire bonds.
 -
- \$695,000 out of the General Fund to the Pension Fund to pay for the unfunded obligation liabilities resulting from newly awarded Police Retirement Health benefits.
- \$355,000 out of the General Fund to the Insurance Fund to re-establish fund working capital policy levels.
- \$150,000 out of the General Fund to the Storm Water Fund in support of fund levels required to maintain operations for this assessment based fund. Increasing assessment levels in this particular fund is needed to cover rising utility and maintenance costs but local governments are precluded from doing so subject to a proposition 218 vote of the people.
- \$33,444 out of the Underground Utility Construction Fund to the General Fund to reimburse the City for bond issuance costs.

When evaluating available reserves, it is important to note that local governing body has defined a variety of financial designations which are outlined within note 7 of this financial statement. These designations are applied as a matter of fiscal policy and contingency planning.

Capital Improvement Fund

The Capital Improvement Fund serves to plan and manage the construction and maintenance of City Infrastructure. This fund is replenished through specific dedicated revenue sources as well as General Fund surplus which may arise from year to year. Along with its operating budget, the City adopts a five-

City of Manhattan Beach Management's Discussion and Analysis

year capital project plan on an annual basis in which City Council-directed priorities are set and planned for. The Capital Improvement Fund is one of the major funds which is covered in that City-wide plan.

At the end of the current fiscal year, unreserved fund balance of the Capital Improvement Fund was \$1.34 million, while total fund balance reached \$7.42 million. Only \$100,000 of the unreserved balance has been specifically earmarked for planned infrastructure projects leaving an unreserved and undesignated balance of \$1.24 million as indicated in Note 7 to these financial statements. Key reserves at year-end include:

- \$1.01 million for approved and uncompleted capital projects
- \$3.74 million for improvements to the Strand Walkway
- \$1.34 million for Police & Fire Bond Reserves
- \$100,000 for improvements to Artesia Boulevard

During the current fiscal year, the fund balance of the City's Capital Improvement Fund decreased by \$1.77 million mainly due to the initiation and continuance of the City's most significant capital projects and the related following transfers. These transfers mark the final chapter in a planned accumulation of reserves to finance the Police and Fire facility and the Strand Walkway:

- A \$2,463,163 transfer out of the General Fund into the Capital Improvement Fund to:
 - Increase the designated Strand Improvement Reserve by \$1,596,368 to the approved \$4.5 million level.
 - To prepay \$866,795 in capitalized interest as a basis for reducing long term debt service payments for the Police & Fire bonds.
- A \$5,533,330 transfer out of the Capital Improvement Fund to the Police and Fire Facility Construction Fund as part of a planned and budgeted funding of accumulated project reserves
- A \$293,000 transfer out of the El Porto County Lot Fund to the Capital Improvement Fund to pay for the construction costs associated with the reconstruction of the El Porto parking lot.

Dedicated revenues in this fund amounted to \$1.1 million. These sources have been recorded in the Capital Project Fund and 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: In September 1998, City Council approved an increase in the Transient Occupancy Tax from 8.5% to 10%. This has resulted in the generation of \$359,096 of revenue for the year, an amount which is 10% above prior year levels marking a significant turn around after the impact of the September 11 terrorist strike.

Parking Meter Rates: In fiscal year 2001, City Council approved an increase of on-street parking meter rates from \$0.50 to \$0.75 per hour. This has resulted in additional parking meter revenue of \$550,718 this fiscal year. Actual revenues were ahead of budget estimates and level with the prior year.

Parking Citation Rates: City Council approved an increase of most parking citation rates from \$26 to \$30 in fiscal year 2001. This increase resulted in parking citation revenue of \$116,508 this current year, a decrease of 6% over the prior year.

Beyond these dedicated revenues, this fund realized \$1.03 million in grant funds for specific projects including the El Porto parking lot reconstruction.

Capital Improvement Fund expenditures equaled \$2.3 million which included \$1.2 million for El Porto parking lot Improvements, \$707,000 for Police & Fire debt service and bond fees, and \$404,000 Strand Walkway improvements. The Strand Walkway project will extend into fiscal year 2005-2006 and is

City of Manhattan Beach Management's Discussion and Analysis

projected to cost \$4.5 million. \$3.8 million in designated reserves for this project have been set aside within the Capital Improvement Fund in the current year.

As mentioned above, \$5.3 million was transferred from the Capital Improvement Fund to the City's Safety and Civic Center Construction fund. This represents the final scheduled transfer of funds which was deposited with a third party trustee along with the remaining bond financing dollars. These funds will be used to fund the project scheduled for completion in FY 2005-5006. The construction contract for the new facility was awarded in fiscal 2003-2004 and construction began in February 2004. The total cost of this project is valued at \$41 million.

Other Governmental Funds

Other non major governmental funds include several Special Revenue funds used exclusively to account for intergovernmental and assessment proceeds which are restricted as to use by law. This group of funds includes the Street Lighting Fund, Federal and State Grants Fund, Gas Tax Fund, Propositions A and C Funds, Asset Forfeiture Fund, Police Safety Grant Fund and the Air Quality Management 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.

In 2004-2005, these funds operated within budget guidelines. Combined fund balances at year-end approximated \$5.5 million, a decrease of \$513,771 over 2004. Changes in fund balances for this group can be expected to fluctuate as capital projects are expended over time.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The funds presented in these financials are the Water, Storm Water, Wastewater, Refuse and Parking funds. Within the parking operations, both the County and State Lot Funds are considered nonmajor. Supporting internal service funds are also displayed.

At year-end, total net assets of all proprietary funds amounted to \$36.8 million, of which \$14.8 million is unrestricted. 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, proprietary funds displayed positive income from operations for the year with a combined total of \$1.3 million before transfers. Net assets increased for all funds by \$1.2 million including a \$143,000 transfer out to the Capital Improvement Fund from the County Lot Fund for the El Porto project.

Unrestricted net assets of the internal service funds at the end of the year amounted to \$2.1 million with a net assets total of \$3.9 million. Net assets decreased by \$496,057 mostly due to the dramatic rise in insurance costs and projected claim reserves. In FY 2004-2005, the Insurance Reserve Fund remains within the established working capital reserve level of \$2 million but total equity, after long term liabilities, is recorded as a negative balance of \$369,658. This is a clear indication that expenses are on the rise and future budget action is necessary to increase annual budget appropriation levels and departmental charge outs. Additionally, the City remains hopeful that State reform legislation will mitigate these costs in the near term.

In May of 2002, parking lot meter rates were increased by \$0.25 to \$0.50 per hour. As a result of these changes, the Parking Fund experienced additional revenue of \$33,000 over the prior year and \$176,000 over the base year of increase. This additional income, which has not yet realized the full operational potential of the Metlox development, will assist in funding the debt service related to the construction of downtown's newest public parking structure and town square.

**City of Manhattan Beach
Management's Discussion and Analysis**

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of \$695,232 and can be briefly summarized as follows:

- \$350,515 to roll forward 2003-2004 active purchase orders provided for in prior reserve balances and budgets.
- \$109,445 of funding for Fire Department communications equipment initiated by an award of FEMA grants.
- \$91,353 of funding for Homeland Security initiatives.
- \$79,930 to adjust for annual employee leave pay offs.
- \$27,000 for a Fire Station alerting system
- \$12,250 for an arts education grant pass through to the local school district.

Beyond 2004 purchase order roll forwards amounts, budget adjustments amounted to less than 1% of the original budget including grant funded adjustments. On an overall basis within the General Fund, expenditures were \$1.5 million less than budgetary estimates including these budget adjustments, thus eliminating the need to draw upon existing fund balance. Other budget adjustments included reclassifications from planned contingency accounts resulting in a net zero change on the overall budget.

Capital Asset and Debt Administration

Capital Assets: The City's investment in capital assets government wide as of June 30, 2005, amounts to \$127,524,003 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park improvements, roadways, sewer, storm drains, vehicles, computer equipment and furniture and other equipment.

City of Manhattan Beach Capital Assets
(Net of depreciation)

	Governmental Activities 2005	Business- Type Activities 2005	Total 2005	Total 2004
Land	\$ 33,634,566	\$ 1,757,434	\$ 35,392,000	\$ 35,392,000
Buildings	2,764,404	1,305,655	4,070,059	4,193,896
Machinery and Equipment	1,432,811	309,723	1,742,534	1,965,235
Vehicles	1,753,263	-	1,753,263	1,955,587
Infrastructure	23,828,294	17,906,589	41,734,883	41,952,933
Work In Progress	29,096,710	13,734,554	43,831,264	24,754,398
Total	\$ 92,510,048	\$ 35,013,955	\$ 127,524,003	\$ 110,214,049

During the current fiscal year, several large dollar additions to governmental capital assets were realized making up an overall increase of \$17.3 million. These additions, most of which remain at a work-in-progress state at year end, include the following:

- \$15.6 million of inception to date work in progress costs towards the construction of a new Police and Fire facility. Construction commenced in February 2004 with completion targeted for FY 2005-2006.

**City of Manhattan Beach
Management's Discussion and Analysis**

- \$1.2 million for improvements to the El Porto parking lot.
- \$1.4 million of citywide street improvement projects the bulk of which related to Aviation resurfacing, Artesia Boulevard improvements, signal improvements, construction of the new 13th Street extension, and Strand Walkway improvements.
- \$233,886 of vehicle and machinery purchases.

During the current fiscal year, \$1 million in additions to business activity assets were realized, the bulk of which relates to the following items:

- \$534,000 towards the completion of the Metlox Public Plaza. With the completion of the parking structure in the current year, this development is scheduled to open in December 2005.
- \$500,000 in Water, Storm and Wastewater system improvements mainly related the line replacements and valve and control upgrades.

Additional information on the City's capital assets can be found in Note 4 of this year-end financial report.

Long Term Liabilities: At the end of the current fiscal year, the City of Manhattan Beach had total debt outstanding of \$43,550,017. Of this amount, \$39,060,000 relates to outstanding Certificates of Participation. A breakdown of this debt is as follows:

City of Manhattan Beach Outstanding Liabilities

	Governmental Activities 2005	Business- Type Activities 2005	Total 2005	Total 2004
Marine Ave Park COPs	\$ 8,970,000	\$ -	\$ 8,970,000	\$ 9,155,000
Capital Equipment Lease		-		62,495
Police Fire Facility COPs	\$ 12,980,000	\$ -	\$ 12,980,000	
Accrued Employee Leave and Benefits	1,814,768	63,542	1,878,310	1,799,355
Water and Wastewater COPs	-	4,015,000	4,015,000	4,105,000
Metlox Parking COPs	-	13,095,000	13,095,000	13,350,000
Insurance Claim Reserves	2,425,651	-	2,425,651	1,965,188
Bond Premium	186,056	-	186,056	
Total Liabilities	26,376,475	17,173,542	43,550,017	30,437,038
Current	355,882	361,253	717,135	736,342
Long-Term Liabilities	\$ 26,020,593	\$ 16,812,289	\$ 42,832,882	\$ 29,700,696

The City's total debt increased by \$13,112,979 (43%) during the current fiscal year due primarily to the issuance of \$12,980,000 in Certificates of Participation in November 2004 for the construction of the Police and Fire facility. This facility is valued at \$41 million and the balance, beyond bond financing, was funded by accumulated City cash reserves. Additionally, the amount of long term workers compensation insurance claim reserves continue to climb as has been the trend for several years. These increases are marginally offset by the natural pay down of principal on existing bonds and the payoff of the City's capital lease.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The current debt limitation for the City of Manhattan Beach is \$308,130,020.

**City of Manhattan Beach
Management's Discussion and Analysis**

Additional information on the City's long-term debt can be found in table 9 of the statistical section of this financial report.

ECONOMIC OUTLOOK

The budget for fiscal year 2005-2006 was adopted by the City Council in June 2005. Major projects and initiatives include:

Metlox Public Improvements

Fiscal year 2002-2003 marked the commencement of the construction of a City-owned two-level subterranean parking structure as part of the Metlox public improvement project. Valued at \$14 million, this parking structure is the first phase of a joint public-private development several years in the making. The parking lot contains 460 parking spaces and was opened for use in January 2004. The parking structure was completed on time and within budget. The mixed use commercial development portion of the project began in summer 2004 and will include retail, restaurant, office and a boutique style inn. The inn has commenced operations and the remainder of the development is scheduled to open December 2005. These facilities will surround the City-owned town square to be used as public open space and for City-programmed activities. In the current year, the City owned public plaza improvements are nearing completion. The public improvements have been funded exclusively through Parking Fund operations using certificates of participation of \$13,350,000 originally issued in 2002-2003.

Public Safety Facility

A new state-of-the-art public safety facility has been in the works for several years. The new building will house both Police and Fire personnel, as well as providing additional subterranean parking for the Civic Center and downtown area. The total cost of construction is budgeted at \$41 million. Construction began in February 2004 and project costs approximating \$25 million have been incurred through fiscal year 2004-2005. This project was funded through the use of existing City reserves which are being held in trust as of June 30, 2005. In November 2004, the City issued \$12.9 million in debt in the form of fixed rate certificates of participation to fully fund the project beyond the amount provided by internal cash reserves. The project is currently within budget with occupancy expected to take place within fiscal year 2005-2006.

A review of this year's financial statements reveals the use of cash (\$15 million) for construction and the commencement of annual debt service costs to be paid for from dedicated revenue sources in the Capital Improvement Fund. The use of these reserves for this project, combined with the cost of the Strand Walkway improvements discussed below, places limitations on the City's ability to fund new major projects in future years.

Strand Walkway Improvements

The 2004-2005 Capital Improvement Plan officially appropriated \$4 million for the Strand Walkway Improvement project and cash reserves for the full cost have been established within the Capital Improvement Fund. Designs have been completed and the project commenced in 2005. Construction bids came in within budget projections.

Utility Under-Grounding

The prior year budget included \$5.15 million, including reimbursement costs, for the completion of utility under-grounding as approved by voter initiatives within three beachfront districts. In August 2004, the City administered the issuance of \$3.3 million in Special Assessment District Bonds, including issuance costs, which will fund construction. Pre-payments of \$1.5 million were collected from participating residents making up the remainder of the project cost. Debt service in future years will be paid through annual homeowner assessments collected with property tax and as such these bonds are not recorded as City debt. In the current year, two additional under-grounding districts were approved via neighborhood vote with construction valued at approximately \$6 million for each district. The City is currently in the pre-payment mode, followed by the evaluation of related construction bids in January 2006 and final bond issuance. As we look into future years, several other such under-grounding districts are anticipated to be formed.

City of Manhattan Beach Management's Discussion and Analysis

Other capital improvements for fiscal year 2005-2006 include \$1.4 million in street improvements, \$850,000 in Water, Wastewater and Storm Water line improvements, and \$370,000 in North End Business Improvement District improvements. As we start the budget process in early 2006 the City Council will be addressing citywide infrastructure improvements in need of attention.

ECONOMIC FACTORS

While the California economy has good growth over the past year and the legislative threats have seemed to subside, we are still cognizant of a number of economic and fiscal concerns that cause us to remain cautious and focused on proactive planning. Our tradition of conservative budgeting, cost control and planned infrastructure funding continues to serve us well as we develop our financial plan in these challenging times.

Our major General Fund revenue sources remain stable. Property Tax, which is our single biggest source, experienced growth of 9% this past year, keeping pace with the double digit growth we have noted in each of the past few years. While such rates of growth are not expected to continue, we are confident that the housing market will remain vibrant. Sales Tax remained at prior year levels, but we remain hopeful to experience a rebound in this area as we look forward to the opening of the Metlox development and realize the benefits of the newly renovated Manhattan Village Mall. Transient Occupancy Tax, which suffered greatly from the effects of September 11, came in a very strong 12% increase from the lows of the past two years bringing us back to 2001 levels. All in all our largest revenue streams appear to be doing well.

In November 2004, the voters overwhelmingly approved Proposition 1A which added some protection for local government revenues from future state take backs. In the short term, the City will experience a \$700,000 loss of diverted state funding (ERAF III) in both FY2005 and FY2006. On a lighter note, we are pleased to report that the State made an early payment of 2003 VLF gap-loan (\$650,000) in the FY 2006. This year, the state diverted one fourth of our sales tax revenues, replacing it dollar-for-dollar with property tax. While this appears to be revenue neutral, the conversion of sales tax to property tax has changed our cash flow stream since property tax is received twice a year, while sales tax is remitted monthly. While Proposition 1A has added some protection to our revenues, we remain cautious about the impact of the state's budgetary problems on our community and the services we provide.

Whereas interest earnings have benefited from increased reserve levels and lucrative yield rates in the past, historically low interest rates and the use of significant levels of Police and Fire reserves have resulted in a significant decline for this revenue source. Considering rate reductions and the use of \$25 million in Police and Fire construction reserves, interest earnings are expected to decline by over \$800,000. We expect further declines as Police and Fire reserves are fully expended in fiscal year 2005-2006. Clearly, current year levels will not be reproduced in the foreseeable future.

On the expense side of the equation, we have fully quantified and calculated the severe impact of increasing pension retirement rates and resulting costs. This represents an escalating cost which must be controlled in the future if we are to meet our long-term financial plans. Rising medical and worker compensation insurance costs remain a concern as indicated by the fund performance within this report. City forecasts predict an increase of annual operating costs approximating \$2-3 million beyond FY2004-2005 with PERS costs alone increasing by \$1.1 million in FY2005-2006. Clearly cost control plays a critical role in balancing the fiscal equation considering the relatively lower rate of revenue anticipated in the near term.

Our budget projections looking forward assume that other operational expense patterns will remain in line with normal historical trends.

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.

CITY OF MANHATTAN BEACH, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005



Prepared by the Finance Department

Bruce Moe, Finance Director

CITY OF MANHATTAN BEACH
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
Manhattan Beach, City Hall
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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof 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 October 21, 2005 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
Manhattan Beach, City Hall
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 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 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

October 21, 2005

CITY OF MANHATTAN BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MANHATTAN BEACH

Exhibit A

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current:			
Cash and investments	\$ 36,207,376	\$ 15,548,662	\$ 51,756,038
Receivables:			
Accounts	312,706	802,477	1,115,183
Taxes	2,583,683	-	2,583,683
Accrued interest	391,486	-	391,486
Due from other governments	1,172,802	-	1,172,802
Prepaid costs	25,315	85,539	110,854
Inventories	92,949	69,825	162,774
Total Current Assets	40,786,317	16,506,503	57,292,820
Noncurrent:			
Restricted assets:			
Cash and investments	21,132,385	3,648,074	24,780,459
Unamortized debt issuance costs	333,699	370,546	704,245
Note receivable	723,092	-	723,092
Prepaid pension obligation	760,680	-	760,680
Capital assets not being depreciated	62,731,276	15,491,988	78,223,264
Capital assets, net of depreciation	29,778,772	19,521,967	49,300,739
Total Noncurrent Assets	115,459,904	39,032,575	154,492,479
Total Assets	156,246,221	55,539,078	211,785,299
Liabilities:			
Current:			
Accounts payable	2,844,982	1,061,828	3,906,810
Accrued liabilities	1,481,669	-	1,481,669
Accrued leave payable	165,882	6,253	172,135
Unearned revenue	689,103	-	689,103
Deposits payable	321,106	109,384	430,490
Interest payable	287,250	372,492	659,742
Worker compensation claims	2,735,888	-	2,735,888
General liability claims	239,352	-	239,352
Long-term liabilities due within one year	190,000	355,000	545,000
Total Current Liabilities	8,955,232	1,904,957	10,860,189
Noncurrent:			
Long-term liabilities due in more than one year	26,020,593	16,812,289	42,832,882
Total Liabilities	34,975,825	18,717,246	53,693,071
Net Assets:			
Invested in capital assets, net of related debt	70,373,993	17,903,955	88,277,948
Restricted for:			
Business improvement districts	-	427,607	427,607
Debt service	19,119,420	3,648,074	22,767,494
Special revenue funds	5,493,705	-	5,493,705
Unrestricted	26,283,278	14,842,196	41,125,474
Total Net Assets	\$ 121,270,396	\$ 36,821,832	\$ 158,092,228

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental Activities:				
General government	\$ 7,814,392	\$ 5,311,693	\$ 498,357	\$ -
Public safety	23,756,438	2,877,951	281,815	328,694
Public works	10,355,400	1,277,149	1,254,704	4,466,392
Culture and recreation	4,772,150	1,945,432	536,859	-
Interest on long-term debt	574,108	-	-	-
Total Governmental Activities	\$ 47,272,488	\$ 11,412,225	\$ 2,571,735	\$ 4,795,086
Business-Type Activities:				
Water	6,516,122	6,776,437	-	-
Storm water	338,986	346,906	-	21,807
Wastewater	1,071,557	1,325,721	-	-
Refuse	3,430,815	3,531,951	20,088	-
Parking	1,476,255	1,672,347	-	-
Total Business-Type Activities	12,833,735	13,653,362	20,088	21,807
Total Primary Government	\$ 60,106,223	\$ 25,065,587	\$ 2,591,823	\$ 4,816,893

General Revenues:

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Business licenses taxes

Other taxes

Intergovernmental, unrestricted:

Motor vehicle in lieu

Investment earnings

Other

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

Net Assets at End of Year

Exhibit B

Net (Expenses) Revenues
and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,004,342)	\$ -	\$ (2,004,342)
(20,267,978)	-	(20,267,978)
(3,357,155)	-	(3,357,155)
(2,289,859)	-	(2,289,859)
(574,108)	-	(574,108)
(28,493,442)	-	(28,493,442)
-	260,315	260,315
-	29,727	29,727
-	254,164	254,164
-	121,224	121,224
-	196,092	196,092
-	861,522	861,522
-	861,522	(27,631,920)
11,793,140	-	11,793,140
2,449,326	-	2,449,326
7,903,191	-	7,903,191
903,490	-	903,490
2,316,232	-	2,316,232
1,003,916	-	1,003,916
2,472,372	-	2,472,372
2,332,366	450,702	2,783,068
327,376	-	327,376
143,000	(143,000)	-
31,644,409	307,702	31,952,111
3,150,967	1,169,224	4,320,191
117,293,341	35,652,608	152,945,949
826,088	-	826,088
\$ 121,270,396	\$ 36,821,832	\$ 158,092,228

CITY OF MANHATTAN BEACH

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Capital Projects Funds			
	General	Capital Improvement	Safety and Civic Center Construction	Underground Assessment District
Assets:				
Pooled cash and investments	\$ 17,410,600	\$ 5,359,930	\$ 474,062	\$ 421
Receivables:				
Accounts	312,705	-	-	-
Taxes	2,576,083	-	-	-
Notes receivable	723,091	-	-	-
Accrued interest	391,486	-	-	-
Prepaid costs	17,031	-	-	-
Due from other governments	90,387	950,400	-	-
Restricted assets:				
Cash and investments	49,300	1,625,055	18,751,001	707,027
Total Assets	\$ 21,570,683	\$ 7,935,385	\$ 19,225,063	\$ 707,448
 Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 354,543	\$ 223,066	\$ 1,677,728	\$ 46,046
Accrued liabilities	1,538,209	-	-	-
Accrued leave payable	165,882	-	-	-
Deferred revenues	760,909	-	-	-
Unearned revenue	689,103	-	-	-
Interest payable	-	287,250	-	-
Deposits payable	321,104	-	-	-
Due to other governments	300,683	-	-	-
Total Liabilities	4,130,433	510,316	1,677,728	46,046
 Fund Balances:				
Reserved for:				
Encumbrances	285,067	-	1,939	-
Continuing projects	-	4,746,211	-	-
Prepaid costs	17,031	-	-	-
Debt Service	49,300	1,337,805	17,071,334	660,981
Long-term receivables	723,091	-	-	-
Unreserved, reported in:				
General fund	16,365,761	-	-	-
Special revenue funds	-	-	-	-
Capital project funds	-	1,341,053	474,062	421
Total Fund Balances	17,440,250	7,425,069	17,547,335	661,402
 Total Liabilities and Fund Balances	\$ 21,570,683	\$ 7,935,385	\$ 19,225,063	\$ 707,448

See Notes to Financial Statements

Exhibit C

Other Governmental Funds	Total Governmental Funds
\$ 5,419,504	\$ 28,664,517
7,600	320,305
-	2,576,083
-	723,091
-	391,486
-	17,031
132,015	1,172,802
-	21,132,383
\$ 5,559,119	\$ 54,997,698

\$ 65,414	\$ 2,366,797
-	1,538,209
-	165,882
-	760,909
-	689,103
-	287,250
-	321,104
-	300,683
65,414	6,429,937

6,209	293,215
3,048,792	7,795,003
-	17,031
-	19,119,420
-	723,091
-	16,365,761
2,438,704	2,438,704
-	1,815,536
5,493,705	48,567,761
\$ 5,559,119	\$ 54,997,698

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund balances of governmental funds	\$ 48,567,761
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	90,756,785
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(23,451,243)
Deferred revenues are shown as revenue under full accrual accounting.	760,909
Prepaid pension benefit obligation is not reported in the governmental funds; however, it is reported in the government-wide statements.	760,680
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, fleet management, building maintenance and operation to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	<u>3,875,504</u>
Net assets of governmental activities	<u><u>\$ 121,270,396</u></u>

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Capital Projects Funds			
	General	Capital Improvement	Safety and Civic Center Construction	Underground Assessment District
Revenues:				
Taxes and assessments	\$ 25,201,853	\$ 359,096	\$ -	\$ -
Licenses and permits	1,522,259	38,087	-	-
Intergovernmental	2,762,310	1,035,000	-	-
Contribution from property owners	-	-	-	3,372,891
Charges for services	6,662,336	550,718	-	-
Use of money and property	2,353,450	24,556	304,139	20,413
Fines and forfeitures	1,794,249	116,508	-	-
Miscellaneous	666,232	-	-	-
Total Revenues	40,962,689	2,123,965	304,139	3,393,304
Expenditures:				
Current:				
General government	7,120,760	-	-	-
Public safety	22,126,102	706,572	-	-
Culture and recreation	4,141,179	63,190	-	-
Public works	4,570,303	1,504,538	15,571,575	4,178,434
Total Expenditures	37,958,344	2,274,300	15,571,575	4,178,434
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,004,345	(150,335)	(15,267,436)	(785,130)
Other Financing Sources (Uses):				
Transfers in	33,444	2,756,164	8,858,330	-
Transfers out	(6,988,164)	(5,533,330)	-	(33,444)
Bond proceeds	-	980,000	12,000,000	-
Premium on bonds issued	-	186,055	-	-
Total Other Financing Source (Uses)	(6,954,720)	(1,611,111)	20,858,330	(33,444)
Net Change in Fund Balances	(3,950,375)	(1,761,446)	5,590,894	(818,574)
Fund Balances, Beginning of Year	20,667,534	9,186,515	11,956,441	1,479,976
Restatements	723,091	-	-	-
Fund Balances, Beginning of Year, as restated	21,390,625	9,186,515	11,956,441	1,479,976
Fund Balances, End of Year	\$ 17,440,250	\$ 7,425,069	\$ 17,547,335	\$ 661,402

See Notes to Financial Statements

Exhibit E

Other Governmental Funds	Total Governmental Funds
\$ 1,346,189	\$ 26,907,138
-	1,560,346
825,966	4,623,276
-	3,372,891
5,861	7,218,915
130,218	2,832,776
-	1,910,757
39,356	705,588
<u>2,347,590</u>	<u>49,131,687</u>
-	7,120,760
272,768	23,105,442
790,374	4,994,743
1,798,219	27,623,069
<u>2,861,361</u>	<u>62,844,014</u>
<u>(513,771)</u>	<u>(13,712,327)</u>
-	11,647,938
-	(12,554,938)
-	12,980,000
-	186,055
-	<u>12,259,055</u>
(513,771)	(1,453,272)
6,007,476	49,297,942
-	723,091
6,007,476	50,021,033
<u>\$ 5,493,705</u>	<u>\$ 48,567,761</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$ (1,453,272)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	18,638,155
Depreciation expense	(1,581,392)

Revenue from principal payment received from notes receivable is recorded as revenue in the governmental funds. However, principal payments from notes receivable are eliminated from the statement of activities. This amount represents the change in the note receivables for this fiscal year.	(21,085)
--	----------

Bond proceeds are reported as another financing source in the governmental funds, but as an increase to long-term liabilities in the government-wide statements as follows:

Bond principal	(12,980,000)
Bond premium	(186,055)
Costs of issuance	333,699

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	247,496
--	---------

Compensated absences and supplemental leave expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(46,020)
--	----------

The change in the prepaid pension obligation is reported only at the government-wide level.	(65,411)
---	----------

Deferred revenues are reported as revenue in the government-wide statements.	760,909
--	---------

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.	(496,057)
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Change in net assets of governmental activities	<u><u>\$ 3,150,967</u></u>
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CITY OF MANHATTAN BEACH

Exhibit G

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 24,137,453	\$ 24,137,453	\$ 25,201,853	\$ 1,064,400
Licenses and permits	1,360,999	1,360,999	1,522,259	161,260
Intergovernmental	2,256,833	2,484,631	2,762,310	277,679
Charges for services	6,078,410	6,090,660	6,662,336	571,676
Use of money and property	2,507,990	2,507,990	2,353,450	(154,540)
Fines and forfeitures	2,331,700	2,331,700	1,794,249	(537,451)
Miscellaneous	161,472	423,972	666,232	242,260
Total Resources	38,834,857	39,337,405	40,962,689	1,625,284
Charges to Appropriation (Outflow):				
General government	7,350,056	7,556,687	7,120,760	435,927
Public safety	22,668,654	23,038,197	22,126,102	912,095
Culture and recreation	4,192,436	4,250,724	4,141,179	109,545
Public works	4,641,823	4,702,593	4,570,303	132,290
Total Charges to Appropriation	38,852,969	39,548,201	37,958,344	1,589,857
Other Financing Sources:				
Transfers in	75,000	33,444	33,444	-
Transfers out	(1,746,368)	(6,988,164)	(6,988,164)	-
Total Other Financing Sources	(1,671,368)	(6,954,720)	(6,954,720)	-
Net Change in Fund Balances	(1,689,480)	(7,165,516)	(3,950,375)	3,215,141
Fund Balance, Beginning of Year, as restated	21,390,625	21,390,625	21,390,625	-
Fund Balance, End of Year	\$ 19,701,145	\$ 14,225,109	\$ 17,440,250	\$ 3,215,141

See Notes to Financial Statements

CITY OF MANHATTAN BEACH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Assets:			
Current:			
Cash and investments	\$ 8,746,522	\$ 1,349,158	\$ 1,633,722
Receivables:			
Accounts	412,403	4,215	84,286
Prepaid costs	50	-	-
Inventories	69,825	-	-
Total Current Assets	<u>9,228,800</u>	<u>1,353,373</u>	<u>1,718,008</u>
Restricted assets:			
Cash and investments	227,156	-	111,525
Total Restricted Assets	<u>227,156</u>	<u>-</u>	<u>111,525</u>
Noncurrent:			
Unamortized debt issuance costs	79,415	-	39,067
Fixed assets - net of accumulated depreciation	10,799,034	3,785,166	4,887,827
Total Noncurrent Assets	<u>10,878,449</u>	<u>3,785,166</u>	<u>4,926,894</u>
Total Assets	<u>\$ 20,334,405</u>	<u>\$ 5,138,539</u>	<u>\$ 6,756,427</u>
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 349,412	\$ 5,830	\$ 3,349
Accrued leave payable	6,253	-	-
Interest payable	51,006	-	25,100
Workers' compensation claims	-	-	-
General liability claims	-	-	-
Deposits payable	3,455	103,692	-
Current portion of bonds payable	63,681	-	31,319
Total Current Liabilities	<u>473,807</u>	<u>109,522</u>	<u>59,768</u>
Noncurrent:			
Bonds, notes and loans payable	2,627,367	-	1,292,633
Accrued leave long-term	57,289	-	-
Workers' compensation claims	-	-	-
Liability claims	-	-	-
Total Noncurrent Liabilities	<u>2,684,656</u>	<u>-</u>	<u>1,292,633</u>
Total Liabilities	<u>3,158,463</u>	<u>109,522</u>	<u>1,352,401</u>
Net Assets:			
Invested in capital assets, net of related debt	8,107,986	3,785,166	3,563,875
Restricted for debt service	227,156	-	111,525
Restricted for business improvement district	-	-	-
Unrestricted	8,840,800	1,243,851	1,728,626
Total Net Assets	<u>17,175,942</u>	<u>5,029,017</u>	<u>5,404,026</u>
Total Liabilities and Net Assets	<u>\$ 20,334,405</u>	<u>\$ 5,138,539</u>	<u>\$ 6,756,427</u>

See Notes to Financial Statements

<u>Refuse</u>	<u>Parking</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 793,638	\$ 1,484,936	\$ 1,540,686	\$ 15,548,662	\$ 7,542,861
300,583	990	-	802,477	-
-	85,361	128	85,539	8,282
-	-	-	69,825	92,949
1,094,221	1,571,287	1,540,814	16,506,503	7,644,092
-	3,309,393	-	3,648,074	-
-	3,309,393	-	3,648,074	-
-	252,064	-	370,546	-
-	15,541,928	-	35,013,955	1,753,263
-	15,793,992	-	35,384,501	1,753,263
\$ 1,094,221	\$ 20,674,672	\$ 1,540,814	\$ 55,539,078	\$ 9,397,355
\$ 248,585	\$ 327,626	\$ 127,026	\$ 1,061,828	\$ 120,960
-	-	-	6,253	-
-	296,386	-	372,492	-
-	-	-	-	2,735,889
-	-	-	-	239,351
-	1,690	547	109,384	-
-	260,000	-	355,000	-
248,585	885,702	127,573	1,904,957	3,096,200
-	12,835,000	-	16,755,000	-
-	-	-	57,289	-
-	-	-	-	2,111,324
-	-	-	-	314,327
-	12,835,000	-	16,812,289	2,425,651
248,585	13,720,702	127,573	18,717,246	5,521,851
-	2,446,928	-	17,903,955	1,753,263
-	3,309,393	-	3,648,074	-
-	427,607	-	427,607	-
845,636	770,042	1,413,241	14,842,196	2,122,241
845,636	6,953,970	1,413,241	36,821,832	3,875,504
\$ 1,094,221	\$ 20,674,672	\$ 1,540,814	\$ 55,539,078	\$ 9,397,355

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
MAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Operating Revenues:			
Sales and service charges	\$ 6,767,440	\$ 341,496	\$ 1,325,721
Miscellaneous	8,997	5,410	-
Total Operating Revenues	<u>6,776,437</u>	<u>346,906</u>	<u>1,325,721</u>
Operating Expenses:			
Salaries and wages	548,245	14,561	137,804
Employee benefits	215,894	97,941	37,072
Contract and professional services	3,377,581	26,852	24,471
Materials and services	685,473	12,454	92,665
Utilities	188,887	-	19,695
Administrative service charges	1,075,968	54,567	553,656
Leases and rents	-	-	-
Depreciation	263,370	132,611	127,129
Total Operating Expenses	<u>6,355,418</u>	<u>338,986</u>	<u>992,492</u>
Operating Income (Loss)	<u>421,019</u>	<u>7,920</u>	<u>333,229</u>
Nonoperating Revenues (Expenses):			
Intergovernmental	-	21,807	-
Interest revenue	224,887	27,793	41,794
Interest expense	(160,704)	-	(79,065)
Total Nonoperating Revenues (Expenses)	<u>64,183</u>	<u>49,600</u>	<u>(37,271)</u>
Income (Loss) Before Transfers	485,202	57,520	295,958
Transfers in	-	150,000	-
Transfers out	-	-	-
Changes in Net Assets	<u>485,202</u>	<u>207,520</u>	<u>295,958</u>
Net Assets:			
Beginning of Fiscal Year	<u>16,690,740</u>	<u>4,821,497</u>	<u>5,108,068</u>
End of Fiscal Year	<u>\$ 17,175,942</u>	<u>\$ 5,029,017</u>	<u>\$ 5,404,026</u>

Changes in net assets, enterprise funds

Changes in net assets of business-type activities

Exhibit I

<u>Refuse</u>	<u>Parking</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
\$ 3,499,156	\$ 955,968	\$ 707,749	\$ 13,597,530	\$ 5,597,650
32,795	8,630	-	55,832	193,344
3,531,951	964,598	707,749	13,653,362	5,790,994
3,147	38,083	25,312	767,152	842,751
164	8,241	5,584	364,896	295,368
3,075,067	58,994	115,902	6,678,867	363,503
37,390	101,314	36,264	965,560	4,432,177
287	67,914	31,998	308,781	146,298
314,760	82,814	30,296	2,112,061	125,743
-	-	209,732	209,732	-
-	54,076	-	577,186	436,211
3,430,815	411,436	455,088	11,984,235	6,642,051
101,136	553,162	252,661	1,669,127	(851,057)
20,088	-	-	41,895	-
17,633	107,341	31,254	450,702	-
-	(609,731)	-	(849,500)	-
37,721	(502,390)	31,254	(356,903)	-
138,857	50,772	283,915	1,312,224	-
-	-	-	150,000	355,000
-	-	(293,000)	(293,000)	-
138,857	50,772	(9,085)	1,169,224	(496,057)
706,779	6,903,198	1,422,326	35,652,608	4,371,561
\$ 845,636	\$ 6,953,970	\$ 1,413,241	\$ 36,821,832	\$ 3,875,504
			\$ 1,169,224	
			\$ 1,169,224	

CITY OF MANHATTAN BEACH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	Business-Type Activities - Enterprise Funds		
	Water	Storm Water	Wastewater
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 6,843,199	\$ 383,603	\$ 1,306,563
Cash received from interfund service provided	-	-	-
Cash paid to supplies for goods and services	(4,363,758)	(154,288)	(72,261)
Cash paid to employees for services	(683,124)	(65,158)	(174,694)
Cash paid for interfund services used	(1,503,558)	(5,660)	(622,200)
Other revenues	-	21,807	-
	292,759	180,304	437,408
Cash Flows from Noncapital Financing Activities:			
Cash transfer from other funds	-	150,000	-
Cash transfer to other funds	-	-	-
	-	150,000	-
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(442,109)	(74,902)	(40,946)
Principal paid on capital debt	(60,322)	-	(29,678)
Interest paid on capital debt	(154,628)	-	(76,075)
Bond administration fee	(2,622)	-	(1,290)
	(659,681)	(74,902)	(147,989)
Cash Flows from Investing Activities:			
Interest received	224,883	27,792	41,793
	224,883	27,792	41,793
Net Increase (Decrease) in Cash and Cash Equivalents	(142,039)	283,194	331,212
Cash and Cash Equivalents at Beginning of Year	9,115,717	1,065,964	1,414,035
Cash and Cash Equivalents at End of Year	\$ 8,973,678	\$ 1,349,158	\$ 1,745,247

See Notes to the Financial Statements

Business-Type Activities Enterprise Funds				Governmental Activities - Internal Service Funds
Refuse	Parking	Other Enterprise Funds	Total	
\$ 3,517,427	\$ 1,516,837	\$ 707,749	\$ 14,275,378	\$ 137,862
-	-	-	-	5,665,452
(3,080,295)	(307,250)	(419,017)	(8,396,869)	(3,198,787)
(3,311)	(46,323)	(30,896)	(1,003,506)	(1,040,298)
(353,637)	(644,501)	(33,725)	(3,163,281)	(610,960)
20,088	-	-	41,895	-
100,272	518,763	224,111	1,753,617	953,269
-	-	-	150,000	355,000
-	-	(293,000)	(293,000)	-
-	-	(293,000)	(143,000)	355,000
-	(383,919)	-	(941,876)	(233,887)
-	(255,000)	-	(345,000)	-
-	(597,871)	-	(828,574)	-
-	(3,509)	-	(7,421)	-
-	(1,240,299)	-	(2,122,871)	(233,887)
17,633	107,341	31,255	450,697	-
17,633	107,341	31,255	450,697	-
117,905	(614,195)	(37,634)	(61,557)	1,074,382
675,733	5,408,524	1,578,320	19,258,293	6,468,479
\$ 793,638	\$ 4,794,329	\$ 1,540,686	\$ 19,196,736	\$ 7,542,861

CITY OF MANHATTAN BEACH

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2005**

	Business-Type Activities - Enterprise Funds		
	Water	Storm Water	Wastewater
Reconciliation of Operating Income to net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 421,019	\$ 7,920	\$ 333,229
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	263,370	132,611	127,129
Miscellaneous revenue	-	21,807	-
(Increase) decrease in accounts receivable	52,711	30,697	(20,045)
(Increase) decrease in inventories	(21,595)	-	-
(Increase) decrease in prepaid expense	(46)	-	-
(Increase) decrease in due from other funds	-	-	-
Increase (decrease) in accounts payable	(428,582)	(1,824)	(2,905)
Increase (decrease) in accrued liabilities	5,897	-	-
Increase (decrease) in deposits payable	(15)	(10,907)	-
Increase (decrease) in claims payable	-	-	-
	(128,260)	172,384	104,179
Net Cash Provided (Used) by Operating Activities	\$ 292,759	\$ 180,304	\$ 437,408

See Notes to Financial Statements

Business-Type Activities Enterprise Funds				Governmental Activities - Internal Service Funds
Refuse	Parking	Other Enterprise Funds	Total	
\$ 101,136	\$ 553,162	\$ 252,661	\$ 1,669,127	\$ (851,057)
-	54,076	-	577,186	436,209
20,088	-	-	41,895	-
(14,369)	(825)	-	48,169	-
-	-	-	(21,595)	(580)
-	(85,361)	(128)	(85,535)	(1,400)
-	-	-	-	(6,882)
(6,428)	(2,759)	(28,422)	(470,920)	45,855
-	-	-	5,897	-
(155)	470	-	(10,607)	(2,939)
-	-	-	-	1,334,063
(864)	(34,399)	(28,550)	84,490	1,804,326
\$ 100,272	\$ 518,763	\$ 224,111	\$ 1,753,617	\$ 953,269

CITY OF MANHATTAN BEACH

Exhibit K

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and investments	\$ 1,567,546	\$ 2,516,710
Receivables:		
Accounts	-	5,329
Total Assets	<u>\$ 1,567,546</u>	<u>\$ 2,522,039</u>
Liabilities:		
Accounts payable	\$ -	\$ 10,000
401(a) plan deposits		1,046,659
Utility development deposits		619,874
Art development fees		286,829
Other deposits	-	81,362
Due to bond holders	-	477,315
Total Liabilities	<u>-</u>	<u>\$ 2,522,039</u>
Net Assets:		
Held in trust for pension benefits and other purposes	<u>\$ 1,567,546</u>	

See Notes to Financial Statements

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Pension Trust Fund</u>
Additions:	
Investment earnings:	
Interest	\$ 50,659
Total Additions	<u>50,659</u>
Deductions:	
Benefits	<u>82,733</u>
Total Deductions	<u>82,733</u>
Excess Additions Over Deductions	<u>(32,074)</u>
Transfer in	<u>695,000</u>
Changes in net assets	662,926
Net Assets - Beginning of the Year	<u>904,620</u>
Net Assets - End of the Year	<u><u>\$ 1,567,546</u></u>

CITY OF MANHATTAN BEACH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

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

Blended Component Unit

Manhattan Beach Capital Improvements Corporation - The Manhattan Beach Capital Improvements Corporation (the Corporation) is a nonprofit public benefits corporation, organized under the laws of the State of California in September 1996, pursuant to the Nonprofit Public Benefit Corporation Laws (Title I, Division 2, Part 2, Section 5110). The sole purpose of the Corporation is to issue debt for capital improvements. In September of 1996, this entity issued \$4,615,000 of debt in the form of Certificates of Participation to fund specific projects related to the City's water and wastewater infrastructure. This debt is accounted for in the proprietary fund types within the Water and Wastewater Funds. In April of 2002, this entity also issued \$9,535,000 of debt to pay the cost of refinancing existing ground lease commitments with the Beach Cities' Health District for the newly constructed Marine Avenue Sports Fields. This debt was structured as a variable rate demand Certificate of Participation. In January 2003, this entity issued \$13,350,000 of fixed rate Certificate of Participation for the construction of a two-level downtown subterranean parking structure and outdoor plaza. This endeavor is commonly known as the Metlox Public Improvement project. The parking lot portion of the project was completed in January 2004, with the public plaza scheduled for completion contemporaneously with the commercial development in 2005. Most recently, in November 2004, this entity issued fixed rate Certificates of Participation in the amount of \$12,980,000 to contribute toward the full funding of the construction a new Police and Fire facility and adjoining City Hall plaza. This major project is currently underway with a completion date targeted for the end of the 2005-2006 fiscal year.

b. Accounting and Reporting Policies

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements up to November 30, 1989 at which point all applicable Governmental Accounting Standards Board (GASB) pronouncements are followed. All FASB statements and interpretations issued after November 30, 1989 are followed except for those that conflict with or contradict GASB pronouncements.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

c. Description of Funds

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

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

Governmental Fund Types

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

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

Capital Projects Funds - to account for financial resources segregated for the acquisition or construction of major capital facilities, other than those financed by Enterprise or Internal Service Funds. In recent years two new Capital Improvement Construction funds were placed into this group. These include the Police and Fire Facility Construction Fund and the Underground Assessment District Construction Fund.

Proprietary Fund Types

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

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

Fiduciary Fund Types

Pension Trust Funds - to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans.

Private Purpose Trust Funds - to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

d. Basis of Accounting/Measurement Funds

Government-Wide Financial Statements

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

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

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

Financial Statement Classification

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

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

Unrestricted Net Assets

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

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

Governmental Fund Financial Statements

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

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

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

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

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

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

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

Proprietary Funds Financial Statements

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

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

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

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

Fiduciary Funds

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

Major Funds

The City reports the following major governmental funds:

The General Fund accounts for the resources traditionally associated with general government, which are required for in a separate fund.

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

The Safety and Civic Center Construction Fund accounts for the resources for the construction of the new police and fire facility.

The Underground Assessment District Capital Project Fund accounts for the resources to construct an underground utility in the future.

The City reports the following major proprietary funds:

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

Storm Water Fund is used to account for the maintenance and improvement of the City's storm drains. Revenues are derived from a storm drain assessment to property owners, which are based on size and use of the parcel, and collected through the property tax roles.

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

Refuse Fund is used to account for the provision of refuse collection, street sweeping and recycling services in the City. The City bills both residential and commercial properties. Rates were not increased during this fiscal year although street sweeping charges were added to this operation in July 2004.

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

e. Property Tax Calculator

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

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

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

f. Capital Assets

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

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

In 2002-2003, the City contracted with an independent firm to obtain a valuation of its capital assets. This was done to specifically comply with the reporting requirements of GASB Statement No. 34. For purposes of this study, capital assets were defined to include land, buildings and improvements, City owned utilities, streets and roadways, and parks and recreation facilities and improvements. This significant valuation project entailed many steps covering several months of work. Key steps to the project included: obtaining an inventory of all material City owned assets, establishing acquisition dates, deriving historical costs, developing and recommending useful lives, and constructing a basis for depreciation in arriving at a June 30, 2005, net book value. The completion of this valuation, along with the other reporting requirements of GASB Statement No. 34, presented a material change in accounting principle and the value of capital assets reported in the prior fiscal year.

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

<u>Asset</u>	<u>Years</u>
Buildings/Improvements	40 - 50
Equipment	5 - 10
Vehicles	3 - 20
Water and Sewer Systems	30 - 50
Other Infrastructure	15 - 100

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

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

g. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

h. Other Accounting Policies

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

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

Inventories - Inventories of materials and supplies are carried at cost on a weighted-average basis. The City uses the consumption method of accounting for inventories.

i. Interfund Transfers

As a general rule, interfund transactions have been eliminated from the government-wide financial statements. Exceptions to this rule are payments in lieu or charges for current service between the City's enterprise activity and the City's General Fund. Elimination of these transactions would distort the direct costs and program revenues for the various functions. Certain eliminations have been made regarding interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental, business-type, and Trust & Agency activities have not been eliminated.

j. Long-Term Obligations

In the government-wide and proprietary funds financial statements, long-term obligations are recorded as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt for all issues using the bonds outstanding method.

In the governmental fund financial statements, bond discounts and premiums are recognized as other financing sources or uses. Issuance costs are recorded as a current year expenditure.

Claims and Judgments - The City has recorded all judgment and claim liabilities resulting from workers' compensation and liability insurance claims in the Insurance Reserve Fund, which is a component of the Internal Service Funds Group.

The recorded liability is based upon an estimate of reported claims as provided by an analysis of a third party administrator. Reported short-term and long-term estimated losses and reserves of \$2,975,240 and \$2,425,651, respectively, are recorded in the Insurance Reserve Fund.

Only the short-term liability is reflected as a current liability in all applicable governmental fund types; the remainder of the liability is reported long-term debt in the Statement of Net Assets.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

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

k. Vacation and Sick Leave

The City's policy is to record the cost of vested vacation and sick leave as it is earned. Vacation is payable to employees at the time a vacation is taken or upon termination of employment. Employees do not receive payment for unused sick leave upon termination except for sworn fire safety personnel who may either cash out at a rate of 50% or convert 75% of the value of their unused sick time to service credit upon a service retirement.

Miscellaneous and sworn police employees may accrue compensated time off in lieu of payment for overtime hours. Overtime hours are banked at either time-and-a-half or straight-time hours depending upon the nature of the overtime worked. The dollar value of these hours is included as an employee benefits liability as shown in the balance sheet.

l. Supplemental Leave Allowance

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2005, the total accrued liability for this benefit amounted to \$45,292, based on accumulated hours for months in service during the time period from January 1, 1990 to December 4, 1994, as specified in the parameters of the plan. Upon termination, the employee will be paid for any unused leave and as such the total amount of the liability is accrued as a long-term item (see Note 5). This balance decreased from prior year levels reflecting cash payouts to benefiting employees to be used in funding a newly established and optional employee funded retirement health savings plan.

m. Allocation of Interest Income Among Funds

The City pools all non-restricted cash for investment purchases and allocates interest income based on month-end cash balances. Funds that have restricted cash record interest income in the respective fund.

n. Cash Flow Statements

For purposes of the Statement of Cash Flows, the proprietary fund types consider all cash and investments to be cash equivalents, as these funds participate in the citywide cash and investment pool.

o. Estimates

The accompanying financial statements require management to make estimates and assumptions that effect certain report amounts and disclosures. Actual results could differ from those estimates.

p. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

q. Stewardship, Compliance and Accountability

The Insurance Reserve Internal Service Fund had negative net assets in the amount of \$369,658 at June 30, 2005. The City expects to recover this amount in the coming year from additional departmental charges.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 2: Cash and Investments

As of June 30, 2005, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 57,339,761
Business-type activities	19,196,736
Fiduciary funds	<u>4,084,256</u>
Total Cash and Investments	<u>\$ 80,620,753</u>

The City of Manhattan Beach maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the Combined Balance Sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

The City implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

a. Deposits

At June 30, 2005, the carrying amount of the City's deposits was \$1,676,448, and the bank balance was \$3,134,168. The \$1,457,720 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The City's Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

b. Authorized Investments

Under provisions of the City's Investment Policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan associations
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 2: Cash and Investments (Continued)

- Local Agency Investment Fund (State Pool) Demand Deposits
- Passbook Savings Account Demand Deposits
- Federally Insured Thrift and Loan
- Los Angeles County Pool
- Repurchase Agreements
- Medium-Term Corporate Notes
- Insured Municipal Bonds
- Floaters or step-ups with market driven interest rate adjustments
- Mutual Funds of highest ratings

Throughout the year, the City utilized overnight repurchase agreements for temporary investment of idle cash. Such agreements were used periodically and generally did not exceed 5% of the City's investment portfolio.

Although the City's investment policy allows reverse-repurchase agreements with specific City Council approval, the City did not borrow through the use of reverse-repurchase agreements at any time during the year.

c. Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Entity's investment policy.

d. Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holdings in LAIF. The City had a contractual withdrawal value of \$15,611,000 whose pro-rata share of fair value was estimated by the State Treasurer to be \$15,575,838.

e. Investment in State and County Treasury's Investment Pool and 401(a) Plan

Investment in State and County Treasury's Investment Pool and 401(a) plan cannot be assigned a credit risk category because the City does not own specific securities. However, the funds' investment policies and practices with regard to the credit and market risks have been determined acceptable to the City's investment policies.

f. Cash and Investments - 401 (a) Plan

The City contributes to a 401(a) plan for its management confidential employees into which these employees can make voluntary contributions. The fair value of the plan assets at June 30, 2005 was \$1,046,659.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 2: Cash and Investments (Continued)

g. GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Entity reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Methods and assumptions used to estimate fair value - The City maintains investment accounting records and adjusts those records to "fair value" on an annual basis for material amounts. The City's investment custodian provides market values on each investment instrument on a monthly basis for material amounts. The investments held by the City are widely traded in the financial markets and trading values are readily available from numerous published sources. Material unrealized gains and losses are recorded on an annual basis and the carrying value of its investments is considered fair value. For the year ended June 30, 2005, \$261,375 of unrealized loss was recorded in the investment portfolio.

h. Credit Risk

The City's investment policy limits investments in medium-term notes (MTN's) to those rated in the top three rating categories by two of the three largest nationally recognized rating services at time of purchase. As of June 30, 2005, the City's investment in medium-term notes consisted of investments with General Electric Capital, Citicorp and National City Bank. At June 30, 2005, all MTN's were rated "A" or higher by Moody's. All securities were investment grade and were legal under state and city policies. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2005, the City's investments in external investment pools and money market mutual funds are unrated.

i. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2005, none of the City's deposits or investments was exposed to custodial credit risk.

j. Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer. With respect to concentration risk, as of June 30, 2005, the City has not invested more than 5% of its total investments in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 2: Cash and Investments (Continued)

k. Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that no investment can mature more than five years from the date of purchase in line with state code requirements. The only exception to these maturity limits shall be the investment of the gross proceeds of tax-exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2005, the City had the following investments and original maturities:

	Remaining Investment Maturities			Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	
Pooled Investments:				
Local Government Fund	\$ 15,575,838	\$ -	\$ -	\$ 15,575,838
US Treasury and agency notes	2,939,097	4,213,401	26,128,541	33,281,039
Medium-term notes	-	-	5,025,523	5,025,523
	<u>\$ 18,514,935</u>	<u>\$ 4,213,401</u>	<u>\$ 31,154,064</u>	<u>\$ 53,882,400</u>
Investment Contracts:				
Police & Fire Construction				\$ 20,376,057
Utility Undergrounding				988,474
Metlox certificates of participation				3,309,393
Marine certificates of participation				49,300
Water/wastewater revenue bonds				338,681
				<u>\$ 25,061,905</u>
Demand deposits				\$ 536,377
Other deposits				12,087
Petty cash				2,052
				<u>\$ 550,516</u>
Other Funds and Deposits:				
401(a) employee plan				1,046,659
				<u>79,273</u>
				<u>\$ 1,125,932</u>
Grand Total				<u>\$ 80,620,753</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Interfund Transactions

Interfund Transfers

With City Council approval, resources may be transferred from one fund to another. Transfers between individual funds during the fiscal year ended June 30, 2005 are presented below:

	Transfers To:						Total
	General Fund	Capital Improvement Fund	Police Fire Const Fund	Internal Service Funds	Proprietary Funds	Fiduciary Funds	
Transfers From:							
Major Governmental Funds:							
General Fund	\$ -	\$ 2,463,164	\$ 3,325,000	\$ 355,000	\$ 150,000	\$ 695,000	\$ 6,988,164
Capital Improvements Fund	-	-	5,533,330	-	-	-	5,533,330
Police Fire Const. Fund	-	-	-	-	-	-	-
Underground Utility Fund	33,444	-	-	-	-	-	33,444
Nonmajor Governmental Fund	-	-	-	-	-	-	-
Proprietary Funds	-	293,000	-	-	-	-	293,000
Total	\$ 33,444	\$ 2,756,164	\$ 8,858,330	\$ 355,000	\$ 150,000	\$ 695,000	\$ 12,847,938

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

A \$3,325,000 transfer out of the General Fund into the Police and Fire Construction Fund for funding of the Public Safety Facility as planned for in the City budget. This amount also included an approved project budget contingency amount of \$1,325,000.

A \$2,463,164 transfer out of the General Fund into the Capital Improvement Fund to:

- o Increase the designated Strand Improvement Reserve by \$1,596,369 to the approved \$4 million level.
- o To prepay \$866,795 in capitalized interest as a basis for reducing long-term debt service payments for the Police/Fire bonds.

A \$5,533,330 transfer out of the Capital Improvement Fund to the Police and Fire facility Construction Fund as part of a planned and budgeted funding of accumulated project reserves.

A \$695,000 transfer out of the General Fund to the Pension Fund to pay for the unfunded liabilities resulting from newly awarded Police Post Retirement Health benefits.

A \$355,000 transfer out of the General Fund to the Insurance Fund to re-establish fund working capital policy levels.

A \$150,000 transfer out of the General Fund to the Storm Water Fund in support of fund levels required to maintain operations for the assessment fund. Increasing assessment levels in this particular fund are needed to cover rising utility and maintenance costs, but local governments are precluded from doing so, subject to a proposition 218 vote of the people.

A \$293,000 transfer out of the El Porto County Lot Fund to the Capital Improvement Fund to pay for the construction costs associated with the El Porto Wall project.

A \$33,444 transfer out of the Underground Utility Construction Fund to the General Fund to reimburse the City for bond issuance costs.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 4: Capital Assets and Depreciation

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2005:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 33,634,566	\$ -	\$ -	\$ -	\$ 33,634,566
Construction-in-progress	10,832,326	15,571,575	-	2,692,809	29,096,710
Total Capital Assets, Not Being Depreciated	44,466,892	15,571,575	-	2,692,809	62,731,276
Capital assets, being depreciated:					
Buildings and structures	4,811,732	-	-	-	4,811,732
Machinery and equipment	4,043,229	161,825	(129,795)	-	4,075,259
Vehicles	5,085,841	233,885	(87,231)	-	5,232,495
Streets and roadways	32,989,222	2,861,565	-	(1,059,905)	34,790,882
Parks and recreation	9,252,595	43,190	-	(1,632,904)	7,662,881
Total Capital Assets, Being Depreciated	56,182,619	3,300,465	(217,026)	(2,692,809)	56,573,249
Less accumulated depreciation:					
Buildings and structures	(1,952,558)	(94,770)	-	-	(2,047,328)
Machinery and equipment	(2,412,727)	(332,256)	102,535	-	(2,642,448)
Vehicles	(3,130,254)	(436,209)	87,231	-	(3,479,232)
Streets and roadways	(14,530,225)	(953,165)	-	-	(15,483,390)
Parks and recreation	(2,968,136)	(173,943)	-	-	(3,142,079)
Total Accumulated Depreciation	(24,993,900)	(1,990,343)	189,766	-	(26,794,477)
Total Capital Assets, Being Depreciated, Net	31,188,719	1,310,122	(27,260)	(2,692,809)	29,778,772
Governmental Activities Capital Assets, Net	\$ 75,655,611	\$ 16,881,697	\$ (27,260)	\$ -	\$ 92,510,048

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 4: Capital Assets and Depreciation (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated:					
Land - water	\$ 307,967	\$ -	\$ -	\$ -	\$ 307,967
Land - storm water	7,650	-	-	-	7,650
Land - parking	1,441,817	-	-	-	1,441,817
Construction-in-progress	13,922,072	1,032,704	-	(1,220,222)	13,734,554
Total Capital Assets, Not Being Depreciated	15,679,506	1,032,704	-	(1,220,222)	15,491,988
Capital assets, being depreciated:					
Buildings and structures - parking	1,881,778	-	-	-	1,881,778
Machinery and equipment - parking	689,151	-	-	-	689,151
Water	16,197,376	-	-	1,220,222	17,417,598
Storm water	5,729,338	-	-	-	5,729,338
Wastewater	9,168,712	-	-	-	9,168,712
Total Capital Assets, Being Depreciated	33,666,355	-	-	1,220,222	34,886,577
Less Accumulated Depreciation:					
Buildings and structures - parking	(547,056)	(29,067)	-	-	(576,123)
Machinery and equipment - parking	(354,418)	(25,010)	-	-	(379,428)
Water	(7,346,292)	(263,370)	-	-	(7,609,662)
Storm water	(2,207,046)	(132,611)	-	-	(2,339,657)
Wastewater	(4,332,611)	(127,129)	-	-	(4,459,740)
Total Accumulated Depreciation	(14,787,423)	(577,187)	-	-	(15,364,610)
Total Capital Assets, Being Depreciated, Net	\$ 18,878,932	\$ (577,187)	\$ -	\$ 1,220,222	\$ 19,521,967
Business-Type Activities Capital Assets, Net	\$ 34,558,438	\$ 455,517	\$ -	\$ -	\$ 35,013,955

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 4: Capital Assets and Depreciation (Continued)

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

Governmental Activities:	
General government	\$ 134,719
Public safety	148,753
Public works	1,472,066
Culture and recreation	<u>234,805</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,990,343</u></u>
Business-Type Activities:	
Water	\$ 263,370
Storm water	132,611
Wastewater	127,129
Parking	<u>54,077</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 577,187</u></u>

Note 5: Long-Term Liabilities

The following is a summary of changes in long-term liability for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
Governmental Activities:					
Long-term debt:					
Capital lease	\$ 62,495	\$ -	\$ (62,495)	\$ -	\$ -
Marine Avenue certificate of participation	9,155,000	-	(185,000)	8,970,000	190,000
Police Fire COPs	-	12,980,000	-	12,980,000	-
Other long-term liabilities:					
Supplemental leave allowance	43,923	1,369	-	45,292	-
Compensated absences	1,697,787	251,236	(179,547)	1,769,476	165,882
Workers' compensation claims	1,856,533	254,791	-	2,111,324	-
General liability claims	<u>108,656</u>	<u>205,672</u>	<u>-</u>	<u>314,328</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	<u><u>\$ 12,924,394</u></u>	<u><u>\$ 13,693,068</u></u>	<u><u>\$ (427,042)</u></u>	<u><u>\$ 26,190,420</u></u>	<u><u>\$ 355,882</u></u>
			Unamortized premium	<u><u>\$ 186,055</u></u>	
				<u><u>\$ 26,376,475</u></u>	
Business-Type Activities:					
Long-term debt:					
Water Fund certificate of participation	\$ 2,751,370	\$ -	\$ (60,322)	\$ 2,691,048	\$ 63,681
Wastewater Fund certificate of participation	1,353,630	-	(29,678)	1,323,952	31,319
Metlox certificate of participation	13,350,000	-	(255,000)	13,095,000	260,000
Other long-term liabilities:					
Compensated absences	<u>57,644</u>	<u>8,439</u>	<u>(2,541)</u>	<u>68,624</u>	<u>6,253</u>
Business-Type Activity Long-Term Liabilities	<u><u>\$ 17,512,644</u></u>	<u><u>\$ 8,439</u></u>	<u><u>\$ (347,541)</u></u>	<u><u>\$ 17,178,624</u></u>	<u><u>\$ 361,253</u></u>

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 5: Long-Term Liabilities (Continued)

a. Capital Lease: Municipal Energy Retrofit Program

During the 1994-1995 fiscal year, the City entered into an energy-retrofitting program with Honeywell Home & Building Controls Services. As part of this program, the City contracted for the upgrade, replacement and maintenance of heating, lighting and air conditioning equipment for facilities at a variety of locations. In doing so, the City entered into a Lease-Purchase Agreement consisting of 41 consecutive quarterly payments commencing November 1994. This lease obligation was fully paid off, as scheduled, in the current fiscal year.

b. Marine Avenue Certificates of Participation

The City of Manhattan Beach issued \$9,535,000 of Variable Rate Demand Refunding Certificates of Participation (COP) to refinance the Marine Sports Field Lease. The COP's were issued on April 24, 2002. The interest rate is variable and will be determined by the Remarketing Agent at a rate as follows: the adjustable interest rate will be the interest rate for actual days elapsed which, in the judgment of the Remarketing Agent, having due regard for prevailing financial market conditions, when payable with respect to the Certificates, would equal the interest rate necessary to enable the Remarketing Agent to remarket the tendered Certificates at 100% of the principal amount thereof. The rate used for the repayment schedule is 3.58%, which was the rate estimated at the issuance of the COP's. The COP's mature on August 1, 2032.

Annual debt service requirements to maturity for the Marine Avenue Certificates of Participation are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$ 190,000	\$ 361,364	\$ 551,364
2007	200,000	353,287	553,287
2008	205,000	345,542	550,542
2009	210,000	335,975	545,975
2010	220,000	327,555	547,555
2011-2015	1,230,000	1,492,108	2,722,108
2016-2020	1,460,000	1,216,405	2,676,405
2021-2025	1,745,000	885,884	2,630,884
2026-2030	2,075,000	493,671	2,568,671
2031-2033	1,435,000	76,917	1,511,917
Total	<u>\$ 8,970,000</u>	<u>\$ 5,888,708</u>	<u>\$ 14,858,708</u>

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 5: Long-Term Liabilities (Continued)

c. Police and Fire Facility Certificates of Participation

The City of Manhattan Beach issued \$12,980,000 of fixed rate Certificates of Participation (COP) to fund the construction of a new integrated Police and Fire safety facility, fund reserve requirements, and pay related issuance costs. The facility is located on the Civic Center campus, includes approximately 350 subterranean parking spaces, and is scheduled for completion within fiscal year 2005-2006. The COP's were issued on November 4, 2004. These certificates evidence and represent the proportionate interests of the registered owners thereof in lease payments to be made by the City as rent for the real property on which it is located. The certificates bear interest at 2% to 5% and mature through 2036. The COP's final series mature on January 1, 2036.

Construction costs for the project are valued at \$40.7 million (including construction contingency amounts of \$3.6 million). \$12 million of this cost was to be funded from the net proceeds of the Certificates and \$28.7 million will be funded out of available accumulated project reserves. All project funds, both bond financed and city contributed, are being held in trust with a third party safekeeping institution. As of June 30, 2005 the project was 62% complete.

Annual debt service requirements to maturity for the Police and Fire Certificates of Participation are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$ -	\$ 861,750	\$ 861,750
2007	240,000	287,250	527,250
2008	245,000	569,700	814,700
2009	250,000	564,188	814,188
2010	255,000	557,938	812,938
2011-2015	1,425,000	2,657,469	4,082,469
2016-2020	1,705,000	2,368,919	4,073,919
2021-2025	2,090,000	1,985,650	4,075,650
2026-2030	2,630,000	1,442,500	4,072,500
2031-2035	3,365,000	714,750	4,079,750
2035-2036	775,000	38,750	813,750
Total	<u>\$ 12,980,000</u>	<u>\$ 12,048,863</u>	<u>\$ 25,028,863</u>

d. Compensated Absences

At June 30, 2005, the total citywide accrued liability for compensated absences amounted to \$1,833,018, which is comprised of \$1,615,811 and \$217,207 of vested vacation and sick leave, respectively. \$1,603,594 of this compensated leave liability has been determined to be long-term in nature and related to general governmental services. Additionally \$57,289 of proprietary fund type long-term leave of absences is recorded in the enterprise funds.

e. Workers' Compensation Claims

This is an estimation of the workers' compensation claims that have been incurred but not reported. At June 30, 2005, the long-term portion was \$2,111,324.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 5: Long-Term Liabilities (Continued)

f. General Liability Claims

This is an estimation of the general liability claims incurred but not reported. At June 30, 2005, the long-term portion was \$314,328.

g. Water and Wastewater Certificates of Participation

In September 1996, the Manhattan Beach Capital Improvements Corporation issued \$4,615,000 of debt in the form of Certificates of Participation. This debt was issued to finance 1996 and 1997 enterprise fund projects related specifically to the water and wastewater systems. The certificates bear interest at 5.3% to 5.8% and mature through 2026. Installment payments to be made by the City will be secured by net revenues received by the subject enterprise funds and do not obligate the City's General Funds. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2005:

Fiscal Year Ending June 30, 2005	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 63,681	\$ 151,342	\$ 215,023	\$ 31,319	\$ 74,458	\$ 105,777
2007	67,018	147,853	214,871	32,982	72,742	105,724
2008	70,376	144,161	214,537	34,624	70,925	105,549
2009	73,727	140,288	214,015	36,273	69,020	105,293
2010	77,079	136,235	213,314	37,921	67,026	104,947
2011-2015	459,120	610,274	1,069,394	225,880	300,245	526,125
2016-2020	623,331	457,853	1,081,184	306,669	225,256	531,925
2021-2025	841,162	248,662	1,089,824	413,838	122,338	536,176
2026-2029	415,554	24,491	440,045	204,446	12,049	216,495
Total	<u>\$ 2,691,048</u>	<u>\$ 2,061,159</u>	<u>\$ 4,752,207</u>	<u>\$ 1,323,952</u>	<u>\$ 1,014,059</u>	<u>\$ 2,338,011</u>

h. Metlox Certificate of Participation

In January 2003, the City of Manhattan Beach issued \$13,350,000 of fixed rate Certificates of Participation (COP) to finance the construction of a public parking structure at the City owned Metlox site. This site is positioned adjacent to City Hall in the downtown district and the structure's construction was completed in January 2004. Interest rates on the certificates range from 2% to 5% and mature through 2033. These certificates evidence and represent the proportionate interests of the registered owners thereof in lease payments to be made by the City as rent for use of certain real property and improvements thereon. City Hall and adjacent land are encumbered as security for the COP.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 5: Long-Term Liabilities (Continued)

Annual debt service requirements to maturity for the Metlox Parking Facility (COP) are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 260,000	\$ 592,771	\$ 852,771
2007	265,000	587,571	852,571
2008	270,000	581,609	851,609
2009	280,000	574,184	854,184
2010	285,000	565,784	850,784
2001-2015	1,620,000	3,149,204	4,769,204
2016-2020	1,995,000	2,202,432	4,197,432
2021-2025	2,520,000	1,660,800	4,180,800
2026-2030	3,235,000	930,500	4,165,500
2031-2033	2,365,000	122,250	2,487,250
Total	<u>\$ 13,095,000</u>	<u>\$ 10,967,105</u>	<u>\$ 24,062,105</u>

Note 6: Non-City Obligation

In August 2004, the City issued three separate limited obligation improvement bonds totaling \$3,402,891, under provisions of the Improvement Bond Act of 1915, for Underground Assessment Districts 04-1, 04-3 and 04-5. These bonds were issued for the purpose of financing the construction of certain public improvements within the underground utility assessment districts. The bonds are secured solely by the subject properties and the amounts held in respective reserve and bond funds. The bonds are not secured by the general taxing power of the City of Manhattan Beach and the City has not pledged credit for payment thereof.

Because these bonds are not City obligations, the related liabilities are not reflected in the financial statements.

Note 7: Classification Fund Balance and Enterprise Fund Net Assets

The City's governmental funds reserves and designations at June 30, 2005 are presented below:

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 7: Classification Fund Balance and Enterprise Fund Net Assets (Continued)

	General Fund	Capital Improvement Fund	Police & Fire Construction Fund	Underground Construction Fund	Other Governmental Funds	Total Governmental Funds
Total Fund Equity	\$ 17,440,250	\$ 7,425,069	\$ 17,547,335	\$ 661,402	\$ 5,493,705	\$ 48,567,761
Reserved:						
Encumbrances	\$ 285,067	\$ -	\$ 1,939	\$ -	\$ 6,209	\$ 293,215
Prepays	17,031	-	-	-	-	17,031
Long term notes	723,091	-	-	-	-	723,091
Debt Service	49,300	1,337,805	17,071,334	660,981	-	19,119,420
Continuing capital projects	-	4,746,211	-	-	3,048,792	7,795,003
Total Reserved	1,074,489	6,084,016	17,073,273	660,981	3,055,001	27,947,760
Unreserved	16,365,761	1,341,053	474,062	421	2,438,704	20,620,001
Designated:						
Financial policy	7,747,805	-	-	-	-	7,747,805
Economic uncertainty	4,000,000	-	-	-	-	4,000,000
Pension stabilization	2,024,545	-	-	-	-	2,024,545
Employee leave benefit	1,648,886	-	-	-	-	1,648,886
Artesia Blvd.	-	100,000	-	-	-	100,000
Total Designated	15,421,236	100,000	-	-	-	15,521,236
Undesignated	944,525	1,241,053	474,062	421	2,438,704	5,098,765

The City's Enterprise Fund restrictions and City Council designations at June 30, 2005 are presented below:

	Water Fund	Storm Fund	Waste Water Fund	Refuse Fund	Parking Fund	Nonmajor Enterprise Fund	Total Enterprise Funds
Total Net Assets	\$ 17,175,942	\$ 5,029,017	\$ 5,404,026	\$ 845,636	\$ 6,953,970	\$ 1,413,241	\$ 36,821,832
Restricted:							
Debt service	\$ 227,156	\$ -	\$ 111,525	\$ -	\$ 3,309,393	\$ -	\$ 3,648,074
BID	-	-	-	-	427,607	-	427,607
Total Restricted	227,156	-	111,525	-	3,737,000	-	4,075,681
Investment in Net Capital Assets	8,107,986	3,785,166	3,563,875	-	2,446,928	-	17,903,955
Unrestricted	8,840,800	1,243,851	1,728,626	845,636	770,042	1,413,241	14,842,196
Designations:							
Continuing CIPs	3,475,968	878,102	1,311,145	-	-	100,000	5,765,215
Financial policy	2,038,000	66,000	321,000	-	102,750	93,000	2,620,750
Total Designated	5,513,968	944,102	1,632,145	-	102,750	193,000	8,385,965
After Designations	3,326,832	299,749	96,481	845,636	667,292	1,220,241	6,456,231

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans

a. California Public Employees Retirement System

Plan Description

The City of Manhattan Beach's defined benefit pension plans (the "Safety and Miscellaneous Plans") provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Safety and Miscellaneous Plans are part of the Public Agency portion of the California Public Employees Retirement System (PERS), an agent multiple-employer plan administered by PERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by state statutes within the Public Employees' Retirement Law. The City of Manhattan Beach selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance or resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS 's annual financial report may be obtained from the PERS Executive Office - 400 P Street, Sacramento, California 95814.

In fiscal year 2001-2002, the City Safety Retirement Plan was unbundled and replaced with separate Police and Fire Plans. The Police Plan was modified from the 2% at 50 to the 3% at 50 benefits. The Fire Plan was modified from the 2% at 50 to the 3% at 55 benefits.

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9% and 7% of their annual covered salary, respectively. The City of Manhattan Beach is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. In accordance with existing bargaining group labor agreements, the City fully pays the employee contribution for all full time salaried safety and miscellaneous employees. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 31.35%, 27.09%, and 0% for police, fire and miscellaneous employees, respectively. The contribution requirements of the plan members are established by state statute, and the employer contribution rate is established, and may be amended, by PERS.

Annual Pension Cost

For fiscal year 2004-2005, the City of Manhattan Beach's annual pension cost was \$2,447,521 for the Police, Fire and Miscellaneous Plans combined, and was equal to the City's required and actual contributions. The City also contributed \$1,385,797 for the 2004-2005 fiscal year on behalf of the employees. The City's payroll for employees covered by the plans for the year ended June 30, 2005 was \$17,440,809. The total payroll for the year was \$21,138,738. The required contributions for fiscal year 2004-2005 were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: a) 7.75% investment rate of return (net of administrative expenses); b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 13.15% for safety members); and c) 2% maximum cost-of-living adjustment not to exceed the consumer price index. Both a) and b) include an inflation component of 3%. The actuarial value of the Safety and Miscellaneous

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

Plans' assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The Safety and Miscellaneous Plans' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period ends June 30, 2011.

Three-Year Trend Information for PERS Police Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 600,254	95.23%	\$ (563,550)
6/30/2004	749,380	95.35%	(528,698)
6/30/2005	1,622,501	97.42%	(486,837)

Annual Pension Cost and Net Pension Obligation Police Plan

The City of Manhattan Beach annual pension cost and change net pension obligation in fiscal year ending June 30, 2005 was as follows:

	Police
Annual required contributions (ARC)	\$ 1,580,640
Interest on net pension obligation (NPO)	(43,618)
Amortization of net pension obligation	85,479
Annual pension cost	1,622,501
Actual contributions made in fiscal year	1,580,640
Increase (Decrease) in NPO	41,861
NPO at Beginning of Year	(528,698)
NPO at End of Year	\$ (486,837)

Schedules of Funding Progress for PERS Police Plan*

Valuation Date	Entry Level Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 41,984,208	\$ 46,779,860	\$ (4,792,823)	114.2%	\$ 4,568,938	(104.90)%
6/30/2002	45,740,848	43,425,575	2,315,273	94.9%	4,334,074	53.42 %
6/30/2003	48,429,096	43,795,748	4,633,348	90.4%	4,332,400	106.95 %

* latest available data

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

Three-Year Trend Information for PERS Fire Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	151,798	89.38%	(316,994)
6/30/2004	397,223	95.06%	(297,390)
6/30/2005	890,449	97.36%	(273,843)

Annual Pension Cost and Net Pension Obligation Fire Plan

The City of Manhattan Beach annual pension cost and change net pension obligation in fiscal year ending June 30, 2005 was as follows:

	Fire
Annual required contributions (ARC)	\$ 866,882
Interest on net pension obligation (NPO)	(24,535)
Amortization of net pension obligation	48,082
Annual pension cost	890,429
Actual contributions made in fiscal year	866,882
Increase (Decrease) in NPO	23,547
NPO at Beginning of Year	(297,390)
NPO at End of Year	\$ (273,843)

Schedules of Funding Progress for PERS Fire Plan*

Valuation Date	Entry Level Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2001	22,790,321	26,700,234	(3,909,913)	117.2%	2,467,527	-158.45%
6/30/2002	24,650,004	24,596,413	53,591	99.8%	2,619,069	2.05%
6/30/2003	26,854,031	24,596,413	2,257,618	91.6%	2,894,043	78.01%

* latest available data

Three-Year Trend Information for PERS Miscellaneous Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ -	0%	\$ -
6/30/2004	-	0%	-
6/30/2005	-	0%	-

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for PERS Miscellaneous Plan*

Valuation Date	Entry Level Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 28,873,800	\$ 41,183,641	\$ 12,309,841	142.6%	\$ 7,750,542	158.83 %
6/30/2002	31,063,455	38,260,387	7,196,932	123.2%	8,131,217	88.51 %
6/30/2003	35,960,101	38,187,633	(2,227,532)	106.2%	8,613,453	(25.86)%

* latest available data

b. City Funded Pension Plans

1. Supplemental Retirement Plan

The Supplemental Retirement Plan is a single-employer defined benefit pension plan that covers Police, Fire and Management/Confidential employees who retired prior to January 1995. The plan provides the employee the difference between the benefit provided by the California Public Employees Retirement System (PERS) calculated under the life annuity option and the PERS benefit had the City adopted the Police Officers' Standards and Training (POST) widows and orphans salary continuation plan. The plan states, "The City shall pay each retiring officer, sergeant, lieutenant, firefighter and management employee upon retirement, a monthly amount which would make up the difference for that option of which the officer will receive from PERS under Government Code Section 21330 through 21335 and what only the officer would have received while alive had the City adopted the Police Officers' Standards and Training (POST) widows and orphans salary continuation plan. The payment shall be made to the officer only while the officer is alive and will cease upon death. Upon retirement, the right to their payment shall be regarded as a vested pension benefit to the same extent as the individual's retirement allowance." The benefit is payable for the life of the employee. The benefit is subject to a 2% annual cost-of-living increase. This plan is currently dormant as discussed in the next paragraph. The Supplemental Retirement Plan does not have a separate annual financial report.

The City has ceded the liabilities of active participants in the plan to PERS as of January 1, 1995. The City's remaining obligation is to fund the benefits for those participants who are currently retired.

The number of participants covered under the plan as of June 30, 2005 was as follows:

Retirees and beneficiaries receiving benefits:
Management/Confidential

5

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for Supplemental Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2000	\$ 234,028	\$ 208,773	(25,240)	N/A	N/A
6/30/2001	227,989	208,773	(19,216)	N/A	N/A
6/30/2002	234,488	200,915	(33,573)	N/A	N/A
6/30/2003	224,064	200,915	(23,149)	N/A	N/A
6/30/2004	196,711	196,289	(422)	N/A	N/A
6/30/2005	183,066	196,289	13,223	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2000	N/A	N/A
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2004
Actuarial cost method	Projected Unit Cost Credit method
Amortization period	N/A plan is dormant
Remaining amortization period	N/A plan is dormant
Asset valuation method	N/A plan is dormant

Actuarial Assumptions:	
Investment rate of return	6.5%
Projected salary increases	N/A plan is dormant
Includes inflation at	N/A plan is dormant
Cost-of-living adjustments	2%

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

2. Single Highest Year Plan

The Single Highest Year Plan is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was adopted effective January 1, 1990, covering Management/Confidential Employees and Non-management/Confidential Sworn Police Employees on July 1, 1990 and is for employees who retired prior to May 1993. The plan is known as the City Funded Single Highest Year Plan. The plan pays a retiring employee the difference between the pension payable from PERS and what the PERS pension would be if it were based on the single highest year only. "The payment shall be made to the member only while the member is alive and will cease upon death." Upon retirement, the right to their payment shall be regarded as a vested pension benefit to the same extent as the individual's PERS retirement. This plan is being accounted for in the Pension Fund. Benefits vest after five years of service. Retirees must qualify for PERS retirement to qualify for the Single Highest Year Plan. The benefit is payable for the life of the employee and is subject to a 2% annual cost of living increase. This plan is currently dormant as discussed in the next paragraph. The Single Highest Year Plan does not issue a separate annual financial report.

The City has ceded the liabilities of active participants in the plan to PERS as of July 1, 1993. The City's remaining obligation is to fund the benefits for those participants who are currently retired. The number of participants covered under the plan as of June 30, 2005 was as follows:

Retirees and beneficiaries receiving benefits:	
Management/Confidential	5
Miscellaneous	0
Fire	2
Police	<u>5</u>
Total	<u><u>12</u></u>

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

Schedules of Funding Progress for Single Highest Year

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2000	\$ 596,885	\$ 532,507	\$ (64,378)	N/A	N/A
6/30/2001	580,156	532,507	(47,649)	N/A	N/A
6/30/2002	602,569	516,298	(86,271)	N/A	N/A
6/30/2003	582,400	516,298	(66,102)	N/A	N/A
6/30/2004	499,227	498,155	(1,072)	N/A	N/A
6/30/2005	472,367	498,155	25,788	N/A	N/A

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

<u>Year Ended</u>	<u>Annual Actual Contribution</u>	<u>Percentage Contribution</u>
6/30/2000	N/A	N/A
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2004
Actuarial cost method	Projected Unit Cost Credit Method
Amortization period	N/A plan is dormant
Remaining amortization period	N/A plan is dormant
Asset valuation method	N/A plan is dormant

Actuarial Assumptions:	
Investment rate of return	6.5%
Projected salary increases	N/A plan is dormant
Includes inflation at	N/A plan is dormant
Cost-of-living adjustments	2%

3. Post Retirement Plan for Firefighters

The Post Retirement Plan for Firefighters is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 7, 1996 and is covered under the collective bargaining agreement with the Firefighters Association. The plan covers all firefighters covered under the collective bargaining agreement with the Firefighter's Association of Manhattan Beach. The plan provides for \$300 per month to cover the cost of insurance premiums. Eligibility includes any firefighter who takes a service retirement on and after December 7, 1996, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits. This plan is being accounted for in the Pension Fund. The Post Retirement Plan for Firefighters does not issue a separate annual financial report.

The number of participants covered under the plan as of June 30, 2005 was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	26
Fire - Retirees	<u>1</u>
Total	<u><u>27</u></u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

Schedules of Funding Progress for POST Retirement Health - Firefighters					
Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 164,422	\$ 109,979	\$ (54,443)	N/A	N/A
6/30/2002	124,731	106,873	(17,858)	N/A	N/A
6/30/2003	130,150	106,873	(23,277)	N/A	N/A
6/30/2004	208,679	208,231	(448)	N/A	N/A
6/30/2005	217,113	208,231	(8,882)	N/A	N/A

Plan valuations and liabilities reflect post retirement benefits put into place in the 2000-2001 fiscal year.

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A

4. Post Retirement Plan for Police

The Post Retirement Plan for Police is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 1, 2004 and is covered under the collective bargaining agreement with the Police Officers Association. The plan covers all police officers covered under the collective bargaining agreement with the Police Officers Association of Manhattan Beach. The plan provides for \$300 per month to cover the cost of insurance premiums. Eligibility includes any officer who takes a service retirement on and after December 1, 2004, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits. This plan is being accounted for in the Pension Fund. The Post Retirement Plan for Police does not issue a separate annual financial report.

The number of participants covered under the plan as of June 30, 2005 was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	60
Fire - Retireees	0
Total	60

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

Schedules of Funding Progress for POST Retirement Health -Police					
Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2005	\$ 695,000	\$ 695,000	\$ -	N/A	N/A

Plan valuations and liabilities reflect post retirement benefits put into place in the 2004-2005 fiscal year. The plan's accrued liability at the plan inception was valued at \$695,000 and was funded via a transfer from available General Fund Reserves.

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2005	N/A	N/A

5. Detail of Individual Pension Plans

Financial information for each City-sponsored pension plan is as follows:

Plan Activity	Supplemental	Single Highest Year	Fire Medical	Police Medical	Total
Additions:					
Interest	\$ 10,724	\$ 27,887	\$ 12,048	\$ -	\$ 50,659
Total Additions	10,724	27,887	12,048	-	50,659
Deductions:					
Benefits	24,369	54,750	3,614	-	82,733
Transfer in	-	-	-	695,000	695,000
Changes in net assets	(13,645)	(26,863)	8,434	695,000	662,926
Net Assets Held in Trust for Pension Benefits:					
Opening balance July 1,2004	196,711	499,230	208,679	-	904,620
Ending balance June 30, 2005	\$ 183,066	\$ 472,367	\$ 217,113	\$ 695,000	\$ 1,567,546

6. Retirement Plan for Part-Time, Seasonal and Temporary Employees

On June 6, 1997, the City dissolved the City-administered retirement plan for part-time, seasonal and temporary employees and selected the Public Agency Retirement System (PARS) as the retirement program for this group.

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 8: Retirement Plans (Continued)

The PARS plan is a defined contribution plan. All members' earnings are subject to contribution from the employee and the employer. The contribution rate for the employee is 3.75% and for the employer is 3.75% of payroll.

Total payroll for employees covered by this plan for the year was \$1,661,520. The amount of employee contribution was \$62,307, and employer contribution was \$62,307.

Note 9: Post-Employment Health Insurance

In addition to the pension benefits described in Note 8, the City provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees. To qualify, a retiree must meet the criteria for PERS retirement.

Effective January 1, 1990, the City shall pay \$1 per month for police, fire and management retirees electing to participate in the PERS medical insurance program. The \$1 per month amount will increase each year by 5% of the remaining \$15 per month to a maximum of \$16 per month. The City shall pay any mandated surcharge increases required by PERS.

The City recognizes the cost of providing these benefits by recording the insurance premiums as expenditures. The cost to the City in fiscal year 2004-2005 for this benefit was \$5,908.

Note 10: Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently reports all of its risk management activities in its Insurance Reserve Fund. The City adopted a self-insured workers' compensation program that is administered by a service agent. The City is self-insured for the first \$750,000 on each claim. Insurance coverage in excess of the self-insured amount is provided by a private insurance company up to a limit of \$100,000,000. Also, the City is self-insured for the first \$500,000 on each general liability claim against the City. The insurance coverage in excess of the self-insured amount is provided by Independent Cities Risk Management Authority (ICRMA) up to a limit of \$20,000,000.

ICRMA is considered a self-sustaining risk pool. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2005, the amount of these liabilities was \$5,400,891. The amount represents an estimate of \$2,975,240 for reported claims through June 30, 2005, and \$2,425,651 of estimated incurred but not reported claims. This liability is the City's best estimate based on available information. Changes in the reported liability at June 30, 2005 resulted from the following:

Year	Liability Beginning of Year	Claims and Changes in Estimates	Claims and Payments	Liability End of Year
2004	\$ 4,032,421	\$ 1,444,631	\$ (1,410,224)	\$ 4,066,828
2005	4,066,828	2,434,949	(1,100,886)	5,400,891

**City of Manhattan Beach
Notes to Financial Statements (Continued)**

Note 10: Risk Management (Continued)

The City is a member of the ICRMA, a public entity risk pool currently operating as a common risk management and insurance program for 28 California cities. The City pays an annual premium to the pool for its excess general liability insurance coverage. The agreement for information of the ICRMA provides that the pool will be self-sustaining through member premiums. The City continues to carry commercial companies for all other risks of loss, including property insurance including earthquake and flood, auto physical damage insurance and special events insurance.

During the past three fiscal (claims) years, none of the above programs have had settlements or judgments that exceed pooled or insured coverage. There have been no significant reductions in pooled or insured coverages from coverage in the prior year.

The ICRMA has published its own financial report for the year ended June 30, 2005, which can be obtained from Independent Cities Risk Management Authority, 14156 Magnolia Park, Sherman Oaks, California.

Note 11: Joint Ventures and Jointly Governed Organizations

a. Joint Venture

South Bay Regional Public Communications Authority

The City is a member of the South Bay Regional Public Communications Authority (SBRPCA), a joint powers authority of the cities of Manhattan Beach, Gardena and Hawthorne. SBRPCA was formed October 14, 1975 for the purpose of financing a public safety communications system for the member cities. The Governing Board is composed of an elected official of each member city. An executive committee is composed of the city managers of each member city. The City's participation percentage at June 30, 2005, was 20.4%.

Summarized audited financial information for SBRPCA at June 30, 2004*, is presented below:

Balance Sheet

Assets	\$ 10,945,474
Liabilities to member cities (all current)	\$ 572,775
Bonds payable	8,990,000
Fund equity	1,382,699
Total Liabilities and Fund Equity	\$ 10,945,474

Revenues and Expenditures

Revenues	\$ 5,867,429
Expenditures	(5,382,547)
Excess of Expenditures Over Revenues	484,882
Fund equity - July 1, 2003	897,817
Contributed capital	-
Fund equity - June 30, 2004	\$ 1,382,699

*Most current information available.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 11: Joint Ventures and Jointly Governed Organizations (Continued)

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

b. Jointly Governed Organization

Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force

The City of Manhattan Beach is a member of Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force (L.A. IMPACT), a joint powers authority of the police departments of cities and other institutions in Los Angeles County. The Organization was formed July 1, 1991 with the mission to promote coordinated law enforcement efforts and to address emerging criminal justice issues, mainly in the areas of drug trafficking enterprise and money laundering. The Executive Council consists of 14 police chiefs and other various police officers. All financial decisions were made by the Executive Council. The members received monetary distributions from the asset seizures based on their respective contribution to the effort.

Separate financial statements of L.A. IMPACT are available at the City of La Verne, California.

Summarized audited financial information for L.A. IMPACT at June 30, 2004*, is presented below:

Statement of Net Assets

Assets	<u>\$ 2,783,782</u>
General fixed assets	360,627
Liabilities to member cities (all current)	<u>1,248,291</u>
Total Net Assets	<u>\$ 1,896,118</u>

Revenues and Expenditures

Revenues	\$ 3,843,905
Expenditures	<u>(5,929,392)</u>
Excess of Expenditures Over Revenues	(2,085,487)
Fund equity As Restated - June 30, 2003	<u>3,981,605</u>
Fund equity - June 30, 2004	<u>\$ 1,896,118</u>

*Most current information available.

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 12: Employee 401(a) Plan

The City contributes to a 401(a) plan to its management confidential employees into which employees can make voluntary post-tax contributions. The market value of the plan assets at June 30, 2005 was \$1,046,659.

As of June 30, 2005, the following balances of assets and liabilities were present:

	Market Value <u>401(a) Plan</u>
Total Assets	<u>\$ 1,046,659</u>
Liability to Plan Participants	<u>\$ 1,046,659</u>

Note 13: Related Party Transactions

In June 1995, the City entered into a loan agreement with its City Manager to be used toward the purchase of his residence within the City. The original loan amount was \$430,000. The outstanding principal balance of the loan at June 30, 2005 was \$332,205.

In July 2000, the City entered into a loan agreement with its Police Chief to be used toward the purchase of his residence within the City. The original loan amount was \$427,500. The outstanding principal balance of the loan at June 30, 2005 was \$390,886. This note receivable was paid off in full in the subsequent period concurrent with the sale of the subject property.

Note 14: Commitments and Contingencies

There are certain lawsuits pending against the City that seek monetary damages. The outcome and financial effect of these matters on the City cannot presently be determined, and no provision for any potential liability or losses has been included in the basic financial statements as of June 30, 2005. However, City management expects such amounts, if any, to be immaterial.

Construction Management Services Contract - Police and Fire Facility

The City of Manhattan Beach has entered into a contract with Vanir Construction, Inc. to provide construction management services for the Police and Fire facility project. The original contract was for an amount not to exceed \$1,420,592. As of June 30, 2005, the remaining balance on the contract was \$33,916. In October 2005, the City approved a contract amendment increasing the total contract value for these services to \$1,688,072.

Architect Contract - Police and Fire Facility

The City of Manhattan Beach has entered into a contract with Hellmuth, Obata & Kassabaum, Inc. to provide architectural services for the Police and Fire facility project. The original contract was for an amount not to exceed \$2,475,234. As of June 30, 2005, the remaining balance on the contract was \$42,955. In October 2005, the City approved a contract amendment increasing the total contract value to \$2,575,530.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 15: Operating Agreement

On January 16, 2001, the City of Manhattan Beach entered into an operating agreement with the South Bay Regional Public Communications Authority (the Authority). The operating agreement provides a funding mechanism for the Authority to upgrade the 911 emergency telephone and radio dispatch center. The City has committed to the following future lease payments:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 145,699
2007	147,636
2008	149,478
2009	145,836
2010	147,464
2011-2015	543,135
2016-2020	524,327
2021-2025	530,864
2026-2030	529,957
2031	<u>(24,521)</u>
Total	<u>\$ 2,839,875</u>

Note 16: Fund Balance Restatement

Major Governmental Fund:	
General Fund - Beginning Balance as originally Stated	\$ 20,667,534
Prior year expenses understated	<u>723,091</u>
General Fund - Beginning balance Restated	<u>\$ 21,390,625</u>

In the prior year, long-term notes receivable related to outstanding employee mortgage loans were recorded as deferred revenue in the General Fund based upon initial interpretations of GASB 34 requirements. Upon further technical review this current year, this amount has been reclassified as an equity reserve amount with the affect of increasing overall equity and total assets. Unreserved fund balance remains unchanged.

CITY OF MANHATTAN BEACH

JUNE 30, 2005

NONMAJOR FUNDS

Special Revenue Fund Description

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted by law to expenditures for specified purposes.

Street Lighting and Landscape Fund provides the power, maintenance and capital improvements for the lighting system within the City of Manhattan Beach. Money is received from a special assessment placed on each tax bill in the City, the amount of which is determined by the benefit received by the owner of each property.

Gas Tax Fund is used to account for the City's share of state and county gasoline tax collection in accordance with the provisions of the State of California Streets and Highway Code. Revenues are disbursed by the state based on population and must be used toward the maintenance and repair of City streets that serve as state and county thoroughfares.

Asset Forfeiture Fund is used to account for funds received through federal and state agencies for drug seizures in which the City participated. These funds must be used to supplement, not supplant, the Police Department's normal operating budget. The amount of revenue will vary from year to year based on activity levels.

Police Safety Grants are used for monies received from the federal and state governments for the purposes of supplementing front-line law enforcement services.

Proposition A and C Funds are used to account for proceeds from the half-cent sales taxes generated by the approval of Proposition A and C by Los Angeles County voters. These funds, which are administered by the Los Angeles County Metropolitan Transportation Authority (MTA), are distributed based on population and must be used for transportation-related projects.

AB 2766 Fund is used to account for proceeds received from the additional vehicle registration fee imposed by the state and regulated by the Air Quality Management District (AQMD). These funds are distributed based on population and must be used for programs designed to reduce air pollution from motor vehicles.

CITY OF MANHATTAN BEACH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>Special Revenue Funds</u>		
	<u>Street Lighting and Landscape</u>	<u>Gas Tax</u>	<u>Asset Forfeiture</u>
Assets:			
Pooled cash and investments	\$ 143,791	\$ 2,659,353	\$ 710,332
Receivables:			
Accounts	7,600	-	-
Due from other governments	-	119,858	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 151,391</u>	<u>\$ 2,779,211</u>	<u>\$ 710,332</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 36,433	\$ -	\$ 278
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>36,433</u>	<u>-</u>	<u>278</u>
Fund Balances:			
Reserved:			
Reserved for encumbrances	3,859	-	-
Reserved for continuing projects	-	2,097,607	-
Unreserved:			
Undesignated	111,099	681,604	710,054
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>114,958</u>	<u>2,779,211</u>	<u>710,054</u>
Total Fund Equity	<u>114,958</u>	<u>2,779,211</u>	<u>710,054</u>
Total Liabilities and Fund Balances	<u>\$ 151,391</u>	<u>\$ 2,779,211</u>	<u>\$ 710,332</u>

Special Revenue Funds				Total
Public Safety Grants	Prop A	Prop C	AB 2766	Governmental Funds
\$ 104,115	\$ 313,018	\$ 1,393,160	\$ 95,735	\$ 5,419,504
-	-	-	-	7,600
-	-	-	12,157	132,015
\$ 104,115	\$ 313,018	\$ 1,393,160	\$ 107,892	\$ 5,559,119
\$ 3,475	\$ 1,799	\$ 23,429	\$ -	\$ 65,414
3,475	1,799	23,429	-	65,414
-	-	2,350	-	6,209
-	-	951,185	-	3,048,792
100,640	311,219	416,196	107,892	2,438,704
100,640	311,219	1,369,731	107,892	5,493,705
100,640	311,219	1,369,731	107,892	5,493,705
\$ 104,115	\$ 313,018	\$ 1,393,160	\$ 107,892	\$ 5,559,119

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Special Revenue Funds</u>		
	<u>Street Lighting and Landscape</u>	<u>Gas Tax</u>	<u>Asset Forfeiture</u>
Revenues:			
Taxes and assessments	\$ 378,354	\$ -	\$ -
Intergovernmental	-	674,479	7,071
Charges for services	-	-	-
Use of money and property	3,700	59,060	17,984
Miscellaneous	39,356	-	-
Total Revenues	421,410	733,539	25,055
Expenditures:			
Public safety	-	-	82,401
Culture and recreation	-	-	-
Public works	462,080	258,826	-
Total Expenditures	462,080	258,826	82,401
Excess (Deficiency) of Revenues Over (Under) Expenditures	(40,670)	474,713	(57,346)
Net Change in Fund Balances	(40,670)	474,713	(57,346)
Fund Balances, Beginning of Year	155,628	2,304,498	767,400
Fund Balances, End of Year	\$ 114,958	\$ 2,779,211	\$ 710,054

Special Revenue Funds				Total
Public Safety Grants	Prop A	Prop C	AB 2766	Governmental Funds
\$ -	\$ 528,964	\$ 438,871	\$ -	\$ 1,346,189
100,000	-	-	44,416	825,966
-	5,861	-	-	5,861
3,701	7,896	35,883	1,994	130,218
-	-	-	-	39,356
103,701	542,721	474,754	46,410	2,347,590
190,367	-	-	-	272,768
-	790,374	-	-	790,374
-	16,766	1,056,547	4,000	1,798,219
190,367	807,140	1,056,547	4,000	2,861,361
(86,666)	(264,419)	(581,793)	42,410	(513,771)
(86,666)	(264,419)	(581,793)	42,410	(513,771)
187,306	575,638	1,951,524	65,482	6,007,476
\$ 100,640	\$ 311,219	\$ 1,369,731	\$ 107,892	\$ 5,493,705

CITY OF MANHATTAN BEACH

Schedule 3A

**BUDGETARY COMPARISON SCHEDULE
STREET LIGHTING AND LANDSCAPE
YEAR ENDED JUNE 30, 2005**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Taxes and assessments	\$ 385,366	\$ 385,366	\$ 378,354	\$ (7,012)
Use of money and property	4,000	4,000	3,700	(300)
Miscellaneous	-	-	39,356	39,356
Total Resources	389,366	389,366	421,410	32,044
Charges to Appropriation (Outflow):				
Public works	429,161	429,161	462,080	(32,919)
Total Charges to Appropriation	429,161	429,161	462,080	(32,919)
Other Financing Sources:				
Transfers from other funds	39,356	39,356	-	(39,356)
Total Other Financing Sources	39,356	39,356	-	(39,356)
Net Change in Fund Balances	(439)	(439)	(40,670)	(40,231)
Fund Balance, Beginning of Year	155,628	155,628	155,628	-
Fund Balance, End of Year	\$ 155,189	\$ 155,189	\$ 114,958	\$ (40,231)

CITY OF MANHATTAN BEACH

Schedule 3B

**BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2005**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Intergovernmental	\$ 665,100	\$ 665,100	\$ 674,479	\$ 9,379
Use of money and property	27,500	27,500	59,060	31,560
Total Resources	692,600	692,600	733,539	40,939
Charges to Appropriation (Outflow):				
Public works	1,149,778	2,352,541	258,826	2,093,715
Total Charges to Appropriation	1,149,778	2,352,541	258,826	2,093,715
Net Change in Fund Balance	(457,178)	(1,659,941)	474,713	2,134,654
Fund Balance, Beginning of Year	2,304,498	2,304,498	2,304,498	-
Fund Balance, End of Year	\$ 1,847,320	\$ 644,557	\$ 2,779,211	\$ 2,134,654

CITY OF MANHATTAN BEACH

Schedule 3C

**BUDGETARY COMPARISON SCHEDULES
ASSET FORFEITURE
YEAR ENDED JUNE 30, 2005**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Intergovernmental	\$ -	\$ -	\$ 7,071	\$ 7,071
Use of money and property	17,100	17,100	17,984	884
Total Resources	17,100	17,100	25,055	7,955
Charges to Appropriation (Outflow):				
Public safety	332,522	363,223	82,401	280,822
Total Charges to Appropriation	332,522	363,223	82,401	280,822
Net Change in Fund Balances	(315,422)	(346,123)	(57,346)	288,777
Fund Balance, Beginning of Year	767,400	767,400	767,400	-
Fund Balance, End of Year	\$ 451,978	\$ 421,277	\$ 710,054	\$ 288,777

CITY OF MANHATTAN BEACH

Schedule 3D

**BUDGETARY COMPARISON SCHEDULE
PUBLIC SAFETY GRANTS
YEAR ENDED JUNE 30, 2005**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Intergovernmental	\$ -	\$ 100,000	\$ 100,000	\$ -
Use of money and property	-	-	3,701	3,701
Total Resources	<u>-</u>	<u>100,000</u>	<u>103,701</u>	<u>3,701</u>
Charges to Appropriation (Outflow):				
Public safety	-	189,813	190,367	(554)
Total Charges to Appropriation	<u>-</u>	<u>189,813</u>	<u>190,367</u>	<u>(554)</u>
Net Change in Fund Balance	-	(89,813)	(86,666)	3,147
Fund Balance, Beginning of Year	<u>187,306</u>	<u>187,306</u>	<u>187,306</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 187,306</u>	<u>\$ 97,493</u>	<u>\$ 100,640</u>	<u>\$ 3,147</u>

CITY OF MANHATTAN BEACH

Schedule 3E

**BUDGETARY COMPARISON SCHEDULE
PROPOSITION A
YEAR ENDED JUNE 30, 2005**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 462,000	\$ 462,000	\$ 528,964	\$ 66,964
Charges for services	6,000	6,000	5,861	(139)
Use of money and property	9,900	9,900	7,896	(2,004)
Total Resources	477,900	477,900	542,721	64,821
Charges to Appropriation (Outflow):				
Culture and recreation	472,001	827,001	790,374	36,627
Public works	25,000	25,000	16,766	8,234
Total Charges to Appropriation	497,001	852,001	807,140	44,861
Net Change in Fund Balance	(19,101)	(374,101)	(264,419)	109,682
Fund Balance, Beginning of Year	575,638	575,638	575,638	-
Fund Balance, End of Year	\$ 556,537	\$ 201,537	\$ 311,219	\$ 109,682

CITY OF MANHATTAN BEACH

Schedule 3F

**BUDGETARY COMPARISON SCHEDULE
PROPOSITION C
YEAR ENDED JUNE 30, 2005**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 381,000	\$ 381,000	\$ 438,871	\$ 57,871
Use of money and property	30,600	30,600	35,883	5,283
Total Resources	411,600	411,600	474,754	63,154
Charges to Appropriation (Outflow):				
Public works	374,103	2,169,179	1,056,547	1,112,632
Total Charges to Appropriation	374,103	2,169,179	1,056,547	1,112,632
Net Change in Fund Balance	37,497	(1,757,579)	(581,793)	1,175,786
Fund Balance, Beginning of Year	1,951,524	1,951,524	1,951,524	-
Fund Balance, End of Year	\$ 1,989,021	\$ 193,945	\$ 1,369,731	\$ 1,175,786

CITY OF MANHATTAN BEACH

Schedule 3G

BUDGETARY COMPARISON SCHEDULE
AB 2766
YEAR ENDED JUNE 30, 2005

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 44,416	\$ 4,416
Use of money and property	2,970	2,970	1,994	(976)
Total Resources	42,970	42,970	46,410	3,440
Charges to Appropriation (Outflow):				
Public works	2,000	2,000	4,000	(2,000)
Total Charges to Appropriation	2,000	2,000	4,000	(2,000)
Net Change in Fund Balance	40,970	40,970	42,410	1,440
Fund Balance, Beginning of Year	65,482	65,482	65,482	-
Fund Balance, End of Year	\$ 106,452	\$ 106,452	\$ 107,892	\$ 1,440

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT
YEAR ENDED JUNE 30, 2005**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 328,000	\$ 328,000	\$ 359,096	\$ 31,096
Licenses and permits	36,366	36,366	38,087	1,721
Intergovernmental	-	837,000	1,035,000	198,000
Charges for services	531,041	531,041	550,718	19,677
Use of money and property	-	-	24,556	24,556
Fines and forfeitures	130,810	130,810	116,508	(14,302)
Other	271,840	271,840	-	(271,840)
Other financing sources	-	-	-	-
Total Resources	1,298,057	2,135,057	2,123,965	(11,092)
Charges to Appropriation (Outflow):				
Public safety	783,508	783,508	706,572	76,936
Culture and recreation	10,000	83,013	63,190	19,823
Public works	2,500,000	4,731,737	1,504,538	3,227,199
Total Charges to Appropriation	3,293,508	5,598,258	2,274,300	3,323,958
Other Financing Sources:				
Transfers in	1,635,635	2,756,164	2,756,164	-
Transfers out	(5,500,000)	(5,533,330)	(5,533,330)	-
Bond proceeds	-	980,000	980,000	-
Premium on bonds issued	-	186,055	186,055	-
Total Other Financing Sources	(3,864,365)	(1,611,111)	(1,611,111)	-
Net Change in Fund Balance	(5,859,816)	(5,074,312)	(1,761,446)	3,312,866
Fund Balance, Beginning of Year	9,186,515	9,186,515	9,186,515	-
Fund Balance, End of Year	\$ 3,326,699	\$ 4,112,203	\$ 7,425,069	\$ 3,312,866

CITY OF MANHATTAN BEACH

Schedule 4B

**BUDGETARY COMPARISON SCHEDULE
SAFETY AND CIVIC CENTER CONSTRUCTION
YEAR ENDED JUNE 30, 2005**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Use of money and property	\$ -	\$ -	\$ 304,139	\$ 304,139
Total Resources	-	-	304,139	304,139
Charges to Appropriation (Outflow):				
Public works	18,600,000	27,211,565	15,571,575	11,639,990
Total Charges to Appropriation	18,600,000	27,211,565	15,571,575	11,639,990
Other Financing Sources:				
Transfers in	5,500,000	8,858,330	8,858,330	-
Bond proceeds	14,250,000	14,250,000	12,000,000	(2,250,000)
Total Other Financing Sources	19,750,000	23,108,330	20,858,330	(2,250,000)
Net Change in Fund Balance	1,150,000	(4,103,235)	5,590,894	9,694,129
Fund Balance, Beginning of Year	11,956,441	11,956,441	11,956,441	-
Fund Balance, End of Year	\$ 13,106,441	\$ 7,853,206	\$ 17,547,335	\$ 9,694,129

CITY OF MANHATTAN BEACH

Schedule 4C

**BUDGETARY COMPARISON SCHEDULE
UNDERGROUND ASSESSMENT DISTRICT
YEAR ENDED JUNE 30, 2005**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Contributions from property owners	\$ 5,150,000	\$ 3,372,889	\$ 3,372,891	\$ 2
Use of money and property	-	-	20,413	20,413
Total Resources	5,150,000	3,372,889	3,393,304	20,415
Charges to Appropriation (Outflow):				
Public works	5,150,000	4,787,108	4,178,434	608,674
Total Charges to Appropriation	5,150,000	4,787,108	4,178,434	608,674
Other Financing Sources:				
Transfers Out	-	(33,444)	(33,444)	-
Total Other Financing Sources	-	(33,444)	(33,444)	-
Net Change in Fund Balance	-	(1,447,663)	(818,574)	629,089
Fund Balance, Beginning of Year	1,479,976	1,479,976	1,479,976	-
Fund Balance, End of Year	\$ 1,479,976	\$ 32,313	\$ 661,402	\$ 629,089

CITY OF MANHATTAN BEACH

JUNE 30, 2005

NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for City operations that are financed and operated in a manner similar to private business enterprises. The intent in using this type of fund is to see that the costs of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

County Parking Lot Fund is used to account for the operation and maintenance of parking lots that are owned by Los Angeles County but leased to the City. Proceeds from the meters and parking permits are divided 55% to the county, with an annual guaranteed minimum of \$130,000 and 45% to the City.

State Pier and Parking Lot Fund is used to account for the operation and maintenance of the Manhattan Beach Pier, comfort station and four adjacent parking lots. These properties are owned by the state but controlled by the City through an operating agreement.

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2005**

	County Parking Lots	State Pier and Parking Lot	Totals
Assets:			
Current:			
Cash and investments	\$ 120,941	\$ 1,419,745	\$ 1,540,686
Prepaid costs	-	128	128
	120,941	1,419,873	1,540,814
Total Current Assets			
	120,941	1,419,873	1,540,814
Total Assets	\$ 120,941	\$ 1,419,873	\$ 1,540,814
 Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 117,636	\$ 9,390	\$ 127,026
Deposits payable	547	-	547
	118,183	9,390	127,573
Total Current Liabilities			
	118,183	9,390	127,573
Total Liabilities	118,183	9,390	127,573
 Net Assets:			
Unrestricted	2,758	1,410,483	1,413,241
Total Net Assets	2,758	1,410,483	1,413,241
Total Liabilities and Net Assets	\$ 120,941	\$ 1,419,873	\$ 1,540,814

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	<u>County Parking Lots</u>	<u>State Pier and Parking Lot</u>	<u>Totals</u>
Operating Revenues:			
Sales and service charges	\$ 381,330	\$ 326,419	\$ 707,749
Total Operating Revenues	381,330	326,419	707,749
Operating Expenses:			
Salaries and wages	12,057	13,255	25,312
Employee benefits	2,737	2,847	5,584
Contract and professional services	23,366	92,536	115,902
Materials and services	12,996	23,268	36,264
Utilities	2,559	29,439	31,998
Administrative service charges	15,148	15,148	30,296
Leases and rents	209,732	-	209,732
Total Operating Expenses	278,595	176,493	455,088
Operating Income (Loss)	102,735	149,926	252,661
Nonoperating Revenues (Expenses):			
Interest revenue	-	31,254	31,254
Total Nonoperating Revenues (Expenses)	-	31,254	31,254
Income (Loss) Before Transfers	102,735	181,180	283,915
Transfers out	(293,000)	-	(293,000)
Changes in Net Assets	(190,265)	181,180	(9,085)
Net Assets:			
Beginning of Fiscal Year	193,023	1,229,303	1,422,326
End of Fiscal Year	\$ 2,758	\$ 1,410,483	\$ 1,413,241

**STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005**

	<u>County Parking Lot</u>	<u>State Pier and Parking Lot</u>	<u>Totals</u>
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 381,330	\$ 326,419	\$ 707,749
Cash paid to supplies for good and services	(269,481)	(149,536)	(419,017)
Cash paid to employees for services	(14,795)	(16,101)	(30,896)
Cash paid for interfund services used	(15,148)	(18,577)	(33,725)
Net Cash Provided (Used) by Operating Activities	<u>81,906</u>	<u>142,205</u>	<u>224,111</u>
Cash Flows from Noncapital Financing Activities:			
Cash transfer to other funds	(293,000)	-	(293,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(293,000)</u>	<u>-</u>	<u>(293,000)</u>
Cash Flows from Investing Activities:			
Interest received	-	31,255	31,255
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>31,255</u>	<u>31,255</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(211,094)	173,460	(37,634)
Cash and Cash Equivalents at Beginning of Year	332,035	1,246,285	1,578,320
Cash and Cash Equivalents at End of Year	<u>\$ 120,941</u>	<u>\$ 1,419,745</u>	<u>\$ 1,540,686</u>
Reconciliation of Operating Income to Net Cash			
Operating income (loss)	\$ 102,735	\$ 149,926	\$ 252,661
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
(Increase) decrease in prepaid expense	-	(128)	(128)
Increase (decrease) in accounts payable	(20,829)	(7,593)	(28,422)
Total Adjustments	<u>(20,829)</u>	<u>(7,721)</u>	<u>(28,550)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 81,906</u>	<u>\$ 142,205</u>	<u>\$ 224,111</u>

CITY OF MANHATTAN BEACH

JUNE 30, 2005

NONMAJOR INTERNAL SERVICE FUNDS

Internal Service Funds have been established to finance, administer and account for the provision of goods and services to all funds and all departments on a cost-reimbursement basis.

Insurance Reserve Fund is used to account for the City's self-insured workers' compensation and general liability programs. The fund collects premiums from departments based on claims history.

Information Systems Fund is used to account for the operation, maintenance and replacement of the City's Information Systems including the Citywide network and related hardware and software. Revenues are generated from charges to departments based on the number of PCs in use.

Fleet Management Fund is used to account for the operation, maintenance and replacement of City vehicles. Revenues are generated from vehicle rental charges to departments based upon the number, type and age of vehicles utilized.

Building Maintenance and Operations Fund is used to account for the operation and maintenance of certain City facilities. Revenues are generated by charges to user departments based on the number of personnel in the department.

**COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2005**

Assets:	Insurance Reserve	Information Systems	Fleet Management	Building Maintenance and Operations	Total
Current:					
Cash and investments	\$ 5,031,809	\$ 635,206	\$ 1,829,423	\$ 46,423	\$ 7,542,861
Prepays	-	1,400	-	6,882	8,282
Inventories	-	-	-	92,949	92,949
Total Current Assets	5,031,809	636,606	1,829,423	146,254	7,644,092
Noncurrent:					
Fixed assets-net of accumulated depreciation	-	-	1,753,263	-	1,753,263
Total Assets	\$ 5,031,809	\$ 636,606	\$ 3,582,686	\$ 146,254	\$ 9,397,355
Liabilities and Fund Equity:					
Liabilities:					
Current:					
Accounts payable	\$ 576	\$ 59,854	\$ 27,318	\$ 33,212	\$ 120,960
Workers' compensation claims	2,735,889	-	-	-	2,735,889
General liability claims	239,351	-	-	-	239,351
Total Current Liabilities	2,975,816	59,854	27,318	33,212	3,096,200
Noncurrent:					
Workers' compensation claims	2,111,324	-	-	-	2,111,324
General liability claims	314,327	-	-	-	314,327
Total Noncurrent Liabilities	2,425,651	-	-	-	2,425,651
Total Liabilities	5,401,467	59,854	27,318	33,212	5,521,851
Net Assets:					
Invested in capital assets, net of related debt	-	-	1,753,263	-	1,753,263
Unrestricted	(369,658)	576,752	1,802,105	113,042	2,122,241
Total Net Assets	(369,658)	576,752	3,555,368	113,042	3,875,504
Total Liabilities and Net Assets	\$ 5,031,809	\$ 636,606	\$ 3,582,686	\$ 146,254	\$ 9,397,355

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2005**

	<u>Insurance Reserve</u>	<u>Information Systems</u>	<u>Fleet Management</u>	<u>Building Maintenance and Operations</u>	<u>Totals</u>
Operating Revenues:					
Sales and service charges	\$ 2,651,540	\$ 760,244	\$ 1,355,002	\$ 830,864	\$ 5,597,650
Miscellaneous	94,923	-	98,421	-	193,344
Total Operating Revenues	2,746,463	760,244	1,453,423	830,864	5,790,994
Operating Expenses:					
Salaries and wages	153,191	314,750	211,659	163,151	842,751
Employee benefits	40,909	56,782	159,179	38,498	295,368
Contract and professional services	16,966	91,288	56,878	198,371	363,503
Material and services	3,472,722	270,067	424,179	265,209	4,432,177
Utilities	8,433	2,440	-	135,425	146,298
Administrative service charges	53,985	-	47,404	24,354	125,743
Depreciation	-	-	436,211	-	436,211
Total Operating Expenses	3,746,206	735,327	1,335,510	825,008	6,642,051
Operating Income (Loss)	(999,743)	24,917	117,913	5,856	(851,057)
Income Before Contributions and Transfers	(999,743)	24,917	117,913	5,856	(851,057)
Transfers in	355,000	-	-	-	355,000
Change in Net Assets	(644,743)	24,917	117,913	5,856	(496,057)
Net Assets:					
Beginning of Fiscal Year	275,085	551,835	3,437,455	107,186	4,371,561
End of Fiscal Year	\$ (369,658)	\$ 576,752	\$ 3,555,368	\$ 113,042	\$ 3,875,504

CITY OF MANHATTAN BEACH
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Insurance Reserve</u>	<u>Information Systems</u>
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 102,867	\$ 3,940
Cash received from interfund service provided	2,651,540	760,244
Cash payments to supplies for goods and services	(1,880,995)	(291,264)
Cash payments to employees for services	(193,918)	(371,330)
Cash payments for interfund services used	<u>(345,568)</u>	<u>(20,819)</u>
Net Cash Provided (Used) by Operating Activities	<u>333,926</u>	<u>80,771</u>
Cash Flows from Non-Capital Financing Activities:		
Cash transfer from other funds	<u>355,000</u>	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	355,000	-
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	688,926	80,771
Cash and Cash Equivalents at Beginning of Year	<u>4,342,883</u>	<u>554,435</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,031,809</u>	<u>\$ 635,206</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ (999,743)	\$ 24,917
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	-	-
(Increase) decrease in inventories	-	-
(Increase) decrease in prepaid expense	-	(1,400)
(Increase) decrease in due from other funds	-	-
Increase (decrease) in accounts payable	2,545	57,254
Increase (decrease) in deposits	(2,939)	-
Increase (decrease) in claims payable	<u>1,334,063</u>	<u>-</u>
Total Adjustments	<u>1,333,669</u>	<u>55,854</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 333,926</u>	<u>\$ 80,771</u>

Schedule 10

<u>Fleet Management</u>	<u>Building Maintenance</u>	<u>Totals</u>
\$ 30,618	\$ 437	\$ 137,862
1,422,805	830,863	5,665,452
(436,356)	(590,172)	(3,198,787)
(273,578)	(201,472)	(1,040,298)
(183,933)	(60,640)	(610,960)
<u>559,556</u>	<u>(20,984)</u>	<u>953,269</u>
-	-	355,000
-	-	355,000
<u>(233,887)</u>	-	<u>(233,887)</u>
<u>(233,887)</u>	-	<u>(233,887)</u>
325,669	(20,984)	1,074,382
1,503,754	67,407	6,468,479
<u>\$ 1,829,423</u>	<u>\$ 46,423</u>	<u>\$ 7,542,861</u>
\$ 117,913	\$ 5,856	\$ (851,057)
436,209	-	436,209
-	(580)	(580)
-	-	(1,400)
-	(6,882)	(6,882)
5,434	(19,378)	45,855
-	-	(2,939)
-	-	1,334,063
<u>441,643</u>	<u>(26,840)</u>	<u>1,804,326</u>
<u>\$ 559,556</u>	<u>\$ (20,984)</u>	<u>\$ 953,269</u>

CITY OF MANHATTAN BEACH

JUNE 30, 2005

AGENCY FUNDS

Agency funds are used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Underground Assessment District Fund is used to account for special assessment collections for debt service for the underground assessment bonds that the City remits to the fiscal agent.

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

**COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2005**

	<u>Underground Assessment District</u>	<u>Special Deposits</u>	<u>Totals</u>
Assets:			
Cash And investments	\$ 471,986	\$ 2,044,724	\$ 2,516,710
Receivables:			
Accounts	5,329	-	5,329
Total Assets	<u>\$ 477,315</u>	<u>\$ 2,044,724</u>	<u>\$ 2,522,039</u>
 Liabilities:			
Accounts payable	\$ -	\$ 10,000	\$ 10,000
401(a) plan deposits	-	1,046,659	1,046,659
Utility development deposits	-	619,874	619,874
Art development fees	-	286,829	286,829
Other deposits	-	81,362	81,362
Due to bondholders	477,315	-	477,315
Total Liabilities	<u>\$ 477,315</u>	<u>\$ 2,044,724</u>	<u>\$ 2,522,039</u>

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
<u>Underground Assessment District</u>				
Assets:				
Cash and investments	\$ -	\$ 622,738	\$ 150,752	\$ 471,986
Accounts receivable	-	5,329	-	5,329
Total Assets	<u>\$ -</u>	<u>\$ 628,067</u>	<u>\$ 150,752</u>	<u>\$ 477,315</u>
Liabilities:				
Accounts payable	\$ -	\$ 165,447	\$ 165,447	\$ -
Due to bondholders	-	556,365	79,050	477,315
Total Liabilities	<u>\$ -</u>	<u>\$ 721,812</u>	<u>\$ 244,497</u>	<u>\$ 477,315</u>
<u>Special Deposits</u>				
Assets:				
Cash and investments	\$ 1,754,966	\$ 521,751	\$ 231,993	\$ 2,044,724
Total Assets	<u>\$ 1,754,966</u>	<u>\$ 521,751</u>	<u>\$ 231,993</u>	<u>\$ 2,044,724</u>
Liabilities:				
Accounts payable	\$ 5,261	\$ 2,000	\$ 7,261	\$ -
Due to other agencies	10,000	-	-	10,000
401(a) plan deposits	849,907	196,752	-	1,046,659
Utility development deposit	619,874	-	-	619,874
Art development fees	207,428	81,471	2,070	286,829
Other deposits	62,496	241,528	222,662	81,362
Total Liabilities	<u>\$ 1,754,966</u>	<u>\$ 521,751</u>	<u>\$ 231,993</u>	<u>\$ 2,044,724</u>
<u>Totals</u>				
Assets:				
Cash and investments	\$ 1,754,966	\$ 1,144,489	\$ 382,745	\$ 2,516,710
Accounts receivable	-	5,329	-	5,329
Total Assets	<u>\$ 1,754,966</u>	<u>\$ 1,149,818</u>	<u>\$ 382,745</u>	<u>\$ 2,522,039</u>
Liabilities:				
Accounts payable	\$ 5,261	\$ 167,447	\$ 172,708	\$ -
Due to other agencies	10,000	-	-	10,000
401(a) plan deposits	849,907	196,752	-	1,046,659
Utility development deposit	619,874	-	-	619,874
Art development fees	207,428	81,471	2,070	286,829
Other deposits	62,496	241,528	222,662	81,362
Due to bondholders	-	556,365	79,050	477,315
Total Liabilities	<u>\$ 1,754,966</u>	<u>\$ 1,243,563</u>	<u>\$ 476,490</u>	<u>\$ 2,522,039</u>

CITY OF MANHATTAN BEACH
GOVERNMENTAL FUND TYPE EXPENDITURES
 Last Ten Fiscal Years
 Unaudited

Year Ended June 30,	General Government	Public Safety	Public Works and Services	Parks and Recreation	Capital Outlay	Total
1996	5,335,048	12,091,820	3,454,727	2,177,520	3,061,490	26,120,605
1997	5,458,998	12,749,074	3,374,134	2,414,347	979,945	24,976,498
1998	5,385,146	13,079,784	3,978,931	2,291,957	6,937,115	31,672,933
1999	5,390,051	14,427,189	4,270,985	2,848,672	3,149,102	30,085,999
2000	5,629,579	14,744,184	4,518,550	2,687,306	8,989,370	36,568,989
2001	6,112,802	16,370,442	4,458,722	3,086,968	5,949,461	35,978,395
2002	6,453,362	16,974,210	4,891,118	5,057,722 (1)	2,045,689	35,422,100
2003	6,476,423	18,109,465	5,107,008	4,111,541	4,749,299	38,553,736
2004	6,636,125	19,709,804	5,297,262	4,256,305	7,751,990	43,651,486
2005	7,120,760	23,105,442	9,303,462 (2)	4,931,553	18,382,797 (3)	62,844,009

Source: City of Manhattan Beach Finance Department

Notes : (1) Includes debt service resulting from the Marine Sports Fields refinancing

(2) Includes impact of Underground Financing District costs

(3) Includes Police and Fire Facility, and Strand construction costs

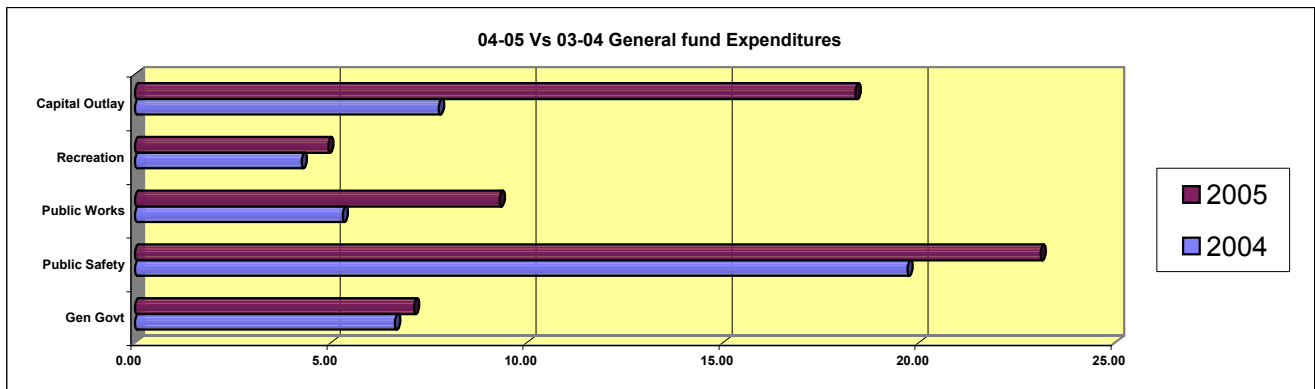
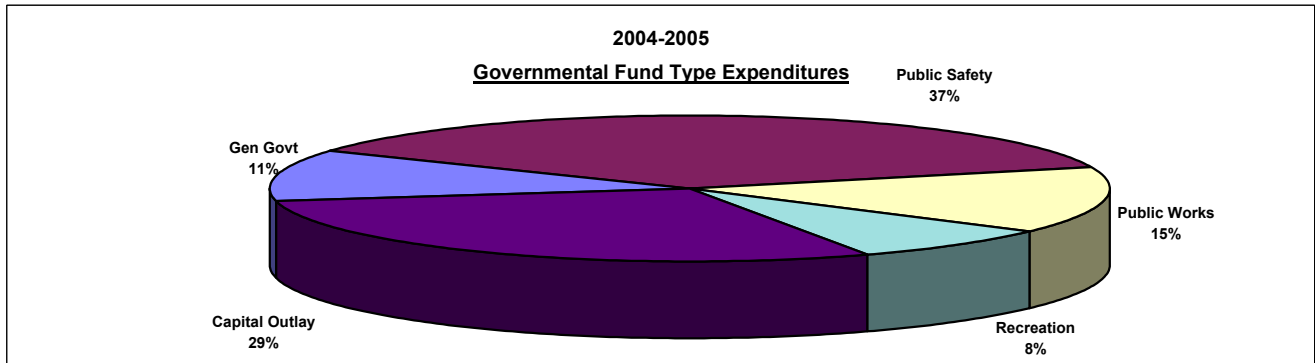


TABLE 2

CITY OF MANHATTAN BEACH

GOVERNMENTAL FUND TYPE REVENUES

**Last Ten Fiscal Years
Unaudited**

<u>Year Ended June 30,</u>	<u>Property Tax</u>	<u>Other Taxes</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeitures</u>	<u>Use of Money and Property</u>
1996	5,594,154	9,703,378	1,434,886	882,738	2,787,346
1997	5,702,789	9,924,623	1,545,191	1,304,599	2,890,790
1998	6,169,976	10,876,845	1,445,771	1,147,742	2,910,914
1999	6,593,181	11,597,556	1,538,607	1,512,428	3,173,943
2000	7,399,040	13,135,692	1,320,358	1,716,625	2,845,216
2001	8,204,761	14,029,437	1,394,038	2,044,684	4,937,608
2002	9,092,325	13,004,340	1,447,841	1,890,321	3,898,959
2003	10,021,646	13,176,563	1,563,170	2,041,805	3,102,780
2004	11,090,838	13,895,757	1,643,682	2,294,532	2,422,849
2005	11,652,108	15,255,030	1,560,346	1,910,757	2,832,778

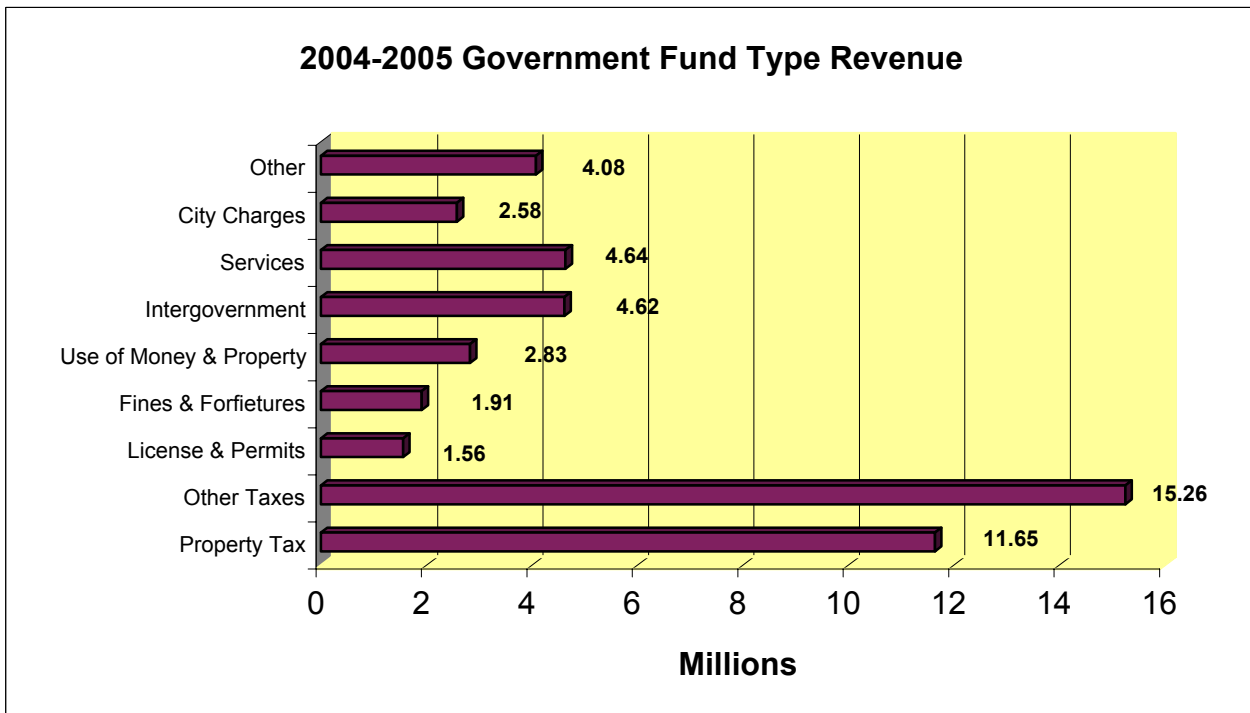


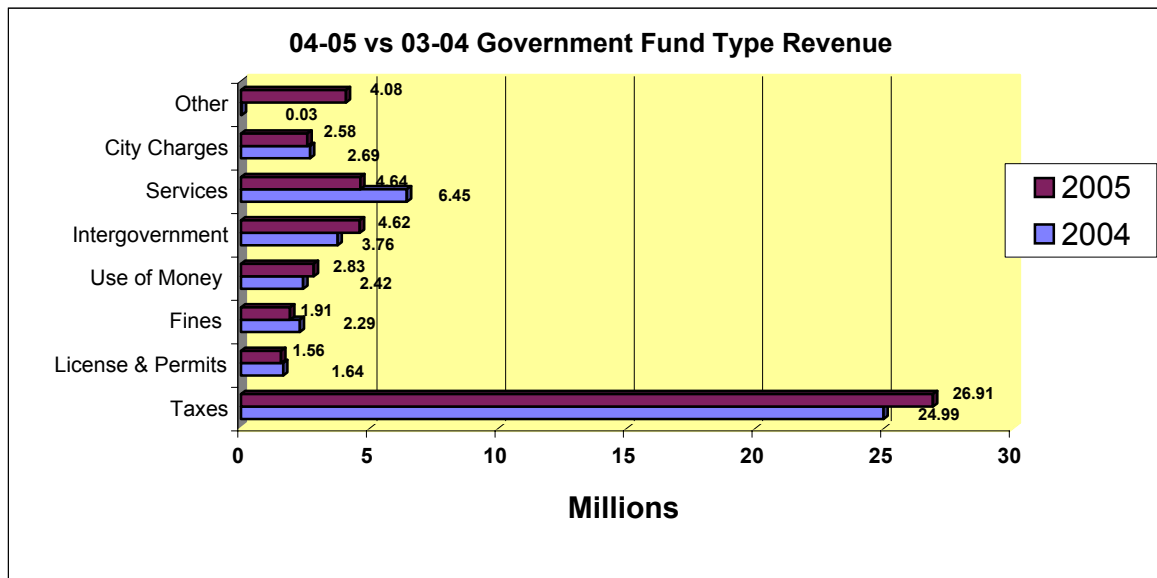
TABLE 2

**CITY OF MANHATTAN BEACH
GOVERNMENTAL FUND TYPE REVENUES**

**Last Ten Fiscal Years
Unaudited**

<u>From Other Governments</u>	<u>Charges For Current Services</u>	<u>City Charges</u>	<u>Other</u>	<u>Total</u>
3,709,201	1,156,441	449,701	77,674	25,795,519
3,407,050	1,139,760	495,933	147,237	26,557,972
3,320,954	2,381,296	1,232,250 (1)	1,628,547	31,114,294
4,523,902	3,052,775	1,327,447	514,996	33,834,835
4,933,577	2,957,663	1,343,333	7,744,489	43,395,993
5,219,620	3,379,607	1,344,827	414,385	40,968,967
4,248,036	3,815,715	1,437,770	1,904,991	40,740,298
4,834,162	4,034,520	2,126,008	645,539	41,546,194
3,756,180	4,330,696	2,150,579	2,687,471	44,272,582
4,623,276	4,639,781	2,579,133	4,078,478 (2)	49,131,687

Note: (1) Beginning in FY 1997-1998, labor costs are allocated from the General Fund to other funds and recorded as City Charge revenues. In prior years, salary & benefits were charged directly to the funds and have been restated to facilitate consistent presentation of this data.
 Note: (2) Includes Underground Assessment District contributions starting in 2003-2004

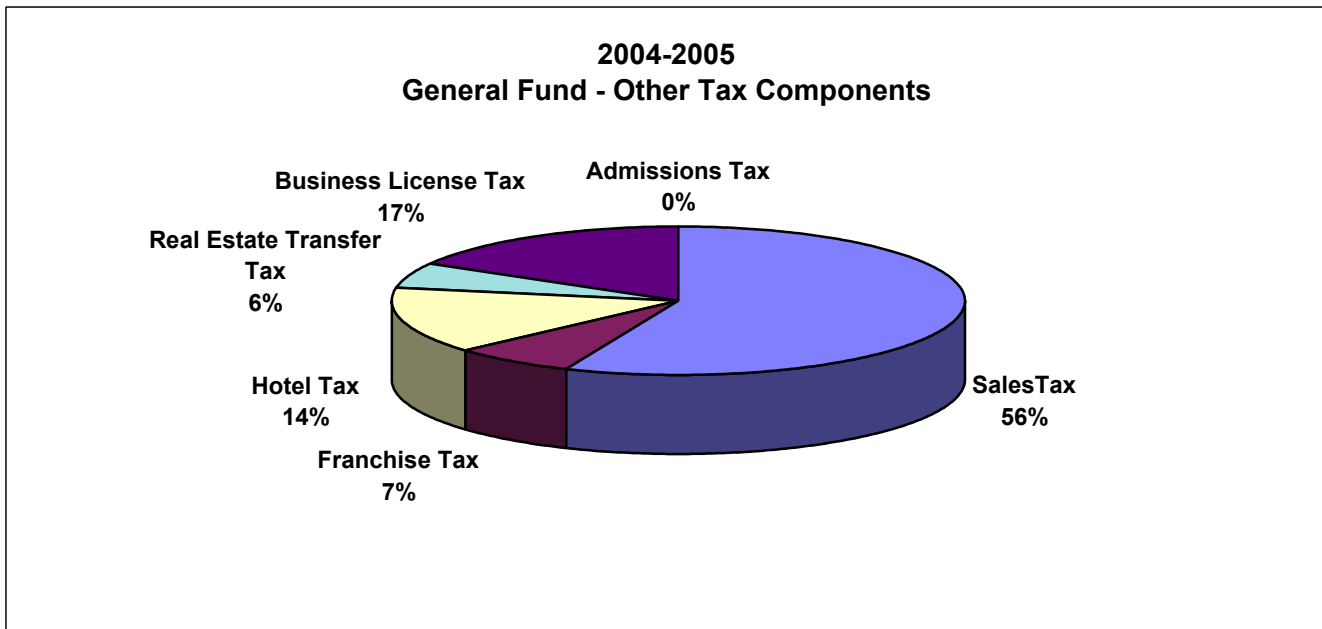


CITY OF MANHATTAN BEACH

GENERAL FUND TAX COLLECTIONS OTHER THAN PROPERTY TAX

Last Ten Fiscal Years
Unaudited

<u>Year Ended June 30,</u>	<u>Sales and Use (A)</u>	<u>Franchise</u>	<u>Transient Occupancy</u>
1996	5,463,656	516,451	1,688,031
1997	5,616,474	492,865	1,710,720
1998	6,358,698	477,780	1,763,361
1999	6,314,366	533,944	2,053,764
2000	7,272,728	626,769	2,150,568
2001	7,526,381	688,304	2,298,211
2002	7,215,913	882,273	1,780,926
2003	7,202,620	904,080	1,735,713
2004	7,550,378	929,251	1,858,919
2005	7,581,885	903,490	2,090,230

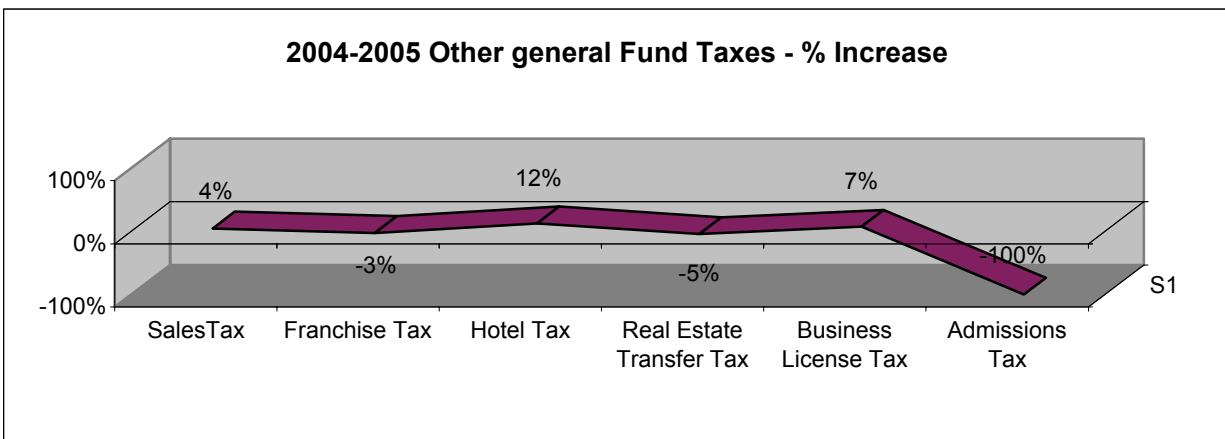


CITY OF MANHATTAN BEACH

GENERAL FUND TAX COLLECTIONS OTHER THAN PROPERTY TAX

Last Ten Fiscal Years
Unaudited

Cigarette	Real Estate Transfer	Business License	Admissions	Total
N.A.	190,217	1,275,334	44,728	9,178,417
N.A.	248,379	1,355,209	51,134	9,474,781
N.A.	371,491	1,444,415	54,771	10,470,516
N.A.	366,201	1,682,971	64,539	11,015,785
N.A.	410,726	1,781,098	73,024	12,314,913
N.A.	537,363	1,836,941	74,061	12,961,261
N.A.	467,499	1,876,833	78,815	12,302,259
N.A.	546,129	2,017,534	85,827	12,491,903
N.A.	721,502	2,134,588	140 (B)	13,194,778
N.A.	688,616	2,285,524	0	13,549,745



Notes:

(A) Includes PSAF Sales Tax

(B) Reflects cancellation of Country Club Tennis events in 2003-2004

Source: City of Manhattan Beach Finance Department

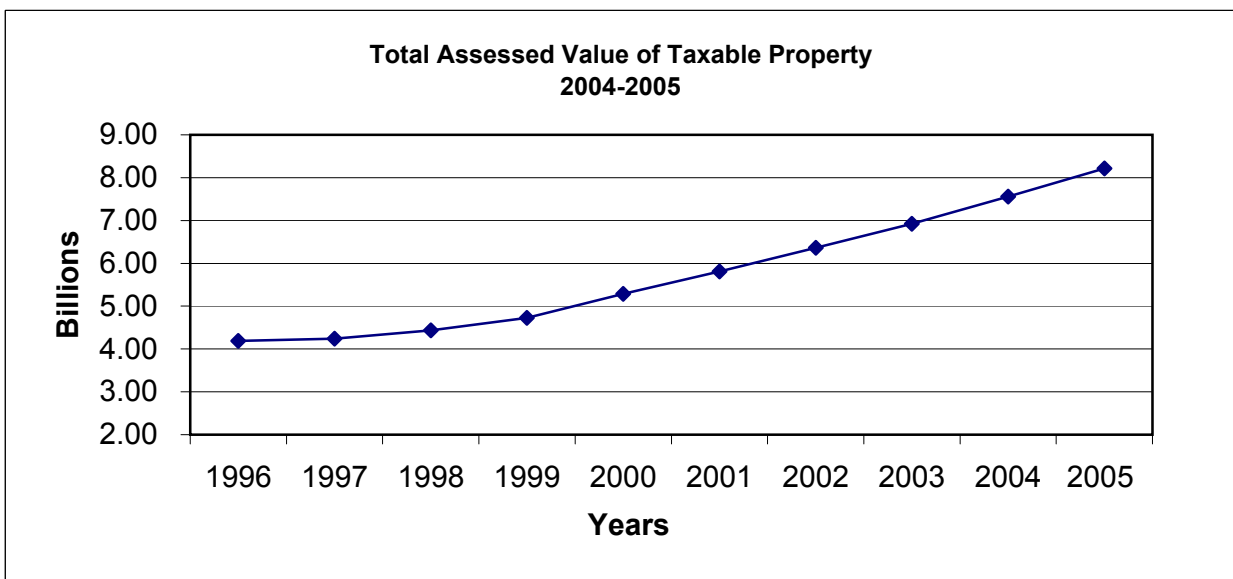
**CITY OF MANHATTAN BEACH
ASSESSED VALUE OF TAXABLE PROPERTY**

Last Ten Fiscal Years

Unaudited

Year Ended June 30,	Assessed value			Annual Change In Assessed Value Secured - %
	Secured Property Net	Unsecured Property Net	Total Assessed Value Net	
1996	4,016,564,946	169,274,513	4,185,839,459	-0.84
1997	4,094,132,575	147,257,201	4,241,389,776	1.33
1998	4,236,014,452	197,492,347	4,433,506,799	4.53
1999	4,528,275,364	201,355,890	4,729,631,254	6.68
2000	5,074,196,996	210,414,851	5,284,611,847	11.73
2001	5,579,448,374	226,898,450	5,806,346,824	9.87
2002	6,091,583,430	273,591,528	6,365,174,958	9.62
2003	6,645,597,917	277,743,519	6,923,341,436	8.77
2004	7,268,382,227	286,052,779	7,554,435,006	9.12
2005	7,926,523,791	290,276,732	8,216,800,523	8.77

Source: Los Angeles County Assessor



CITY OF MANHATTAN BEACH

PROPERTY TAX RATES FOR ALL OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years

Unaudited

Year Ended June 30,	Los Angeles County	School Districts	Metropolitan Water District	Flood Control District	General Levy	Total
1996	0.0018	-	0.0089	0.0010	1.0000	1.0117
1997	0.0016	-	0.0089	0.0020	1.0000	1.0125
1998	0.0016	0.0333	0.0089	0.0020	1.0000	1.0458
1999	0.0015	0.0269	0.0089	0.0020	1.0000	1.0393
2000	0.0014	0.0270	0.0089	0.0018	1.0000	1.0391
2001	0.0013	0.0264	0.0088	0.0016	1.0000	1.0381
2002	0.0011	0.0403	0.0077	0.0011	1.0000	1.0502
2003	0.0010	0.0433	0.0067	0.0009	1.0000	1.0519
2004	0.0010	0.0403	0.0061	0.0005	1.0000	1.0479
2005	0.0009	0.0395	0.0058	0.0002	1.0000	1.0465

Source: Los Angeles County Assessor

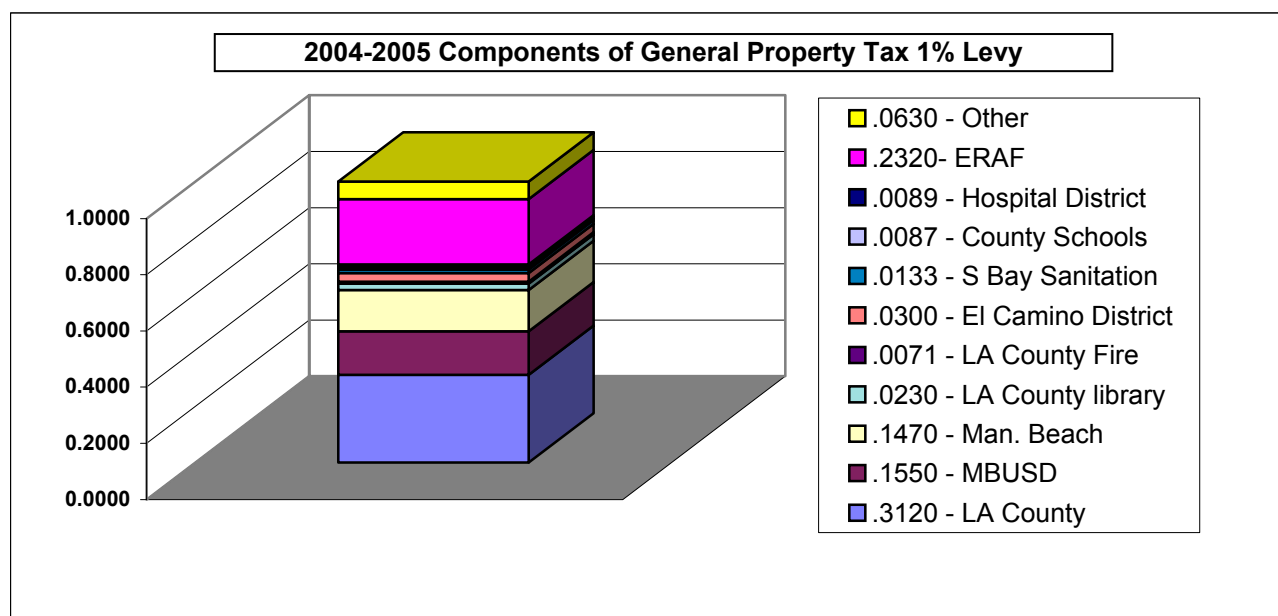


TABLE 6

CITY OF MANHATTAN BEACH
PROPERTY TAX LEVIES AND COLLECTIONS
CURRENT YEAR SECURED AND UNSECURED

Last Ten Fiscal Years
Unaudited

Year Ended June 30,	Total Tax Levy	Tax Collections	% of Levy Collected	Prior Year Delinquent Tax Collections (1)
1996	5,801,331	5,314,019	91.6	N/A
1997	5,876,905	5,501,659	93.6	201,130
1998	6,150,247	5,829,298	94.8	340,678
1999	6,589,987	6,371,225	96.7	221,956
2000	7,388,426	7,075,476	95.8	323,564
2001	8,160,264	7,962,043	97.6	242,718
2002	8,974,491	8,677,306	96.7	415,019
2003	9,795,290	9,503,645	97.0	518,001
2004	10,713,583	10,335,067	96.5	888,919
2005	11,677,784	11,336,153 (2)	97.1	990,146

Source: Los Angeles County Assessor

Notes: (1) Includes interest and penalties

(2) Excludes impact of ERAF III shift of \$674,191

CITY OF MANHATTAN BEACH
PROPERTY TAX LEVIES AND COLLECTIONS
CURRENT YEAR SECURED AND UNSECURED

Last Ten Fiscal Years
Unaudited

Total Tax Collections	Ratio of Total Tax To Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Tax To Levy
N/A	N/A	N/A	N/A
5,702,789	97.04%	566,061	9.63%
6,169,976	100.32%	320,949	5.22%
6,593,181	100.05%	343,066	5.21%
7,399,040	100.14%	167,819	2.27%
8,204,761	100.55%	183,678	2.25%
9,092,325	101.31%	221,832	2.47%
10,021,646	102.31%	291,642	2.98%
11,223,986	104.76%	378,516	3.53%
12,326,299	105.55%	341,632	2.93%

CITY OF MANHATTAN BEACH
PRINCIPAL PROPERTY TAXPAYERS

June 30, 2005
Unaudited

<u>Taxpayer</u>	<u>Business Category</u>	<u>Assessed Value</u>	<u>Percent of Assessed Value</u>
Northrop Grumman	Aerospace	207,312,658	2.52%
MB Studios LLC	Film Studios	137,691,009	1.68%
Rreef America Reit Corporation	Office Building	110,509,569	1.34%
HSOV Manhattan Towers	Office Building	65,033,930	0.79%
Parstem Realty Company Inc.	Industrial Buildings	59,062,019	0.72%
TRW Inc.	Aerospace Manufacturer	58,990,179	0.72%
Host Marriott Corporation	Hotel	35,280,000	0.43%
Skechers USA Inc.	Retail	27,914,291	0.34%
St Paul Properties Inc.	Shopping Center	27,022,229	0.33%
Sun Manhattan LLC	Office Building	26,614,101	0.32%
Principal Taxpayer Totals		755,429,985	9.19%
All Other Taxpayers		<u>7,461,370,538</u>	<u>90.81%</u>
City Total		<u><u>8,216,800,523</u></u>	<u><u>100.00%</u></u>

Source: Los Angeles County Assessor

CITY OF MANHATTAN BEACH

DIRECT AND OVERLAPPING DEBT

June 30, 2005
Unaudited

	<u>Gross Debt</u>	<u>Percentage Applicable To Manhattan Beach</u>	<u>Amount Applicable To Manhattan Beach</u>
DIRECT DEBT:			
Manhattan Beach Unified School District	65,003,888	100.000%	65,003,888
TOTAL DIRECT DEBT	\$65,003,888		\$65,003,888
GROSS OVERLAPPING DEBT:			
Los Angeles County Detention Facilities	\$16,205,000	1.2198%	\$197,667
Los Angeles County Flood Control District	1,990,000	1.2373%	\$24,622
Flood Control Ref Bonds	275,000	1.2375%	\$3,403
Metropolitan Water District	419,390,000		
West Basin Area 1111		1.1690%	4,902,732
El Camino Com Col Dis 2002 Ser 2003ADS	56,580,000	14.8347%	8,393,493
TOTAL GROSS OVERLAPPING DEBT	<u>\$494,440,000</u>		<u>\$13,521,917</u>
TOTAL DIRECT AND OVERLAPPING DEBT	<u>\$559,443,888</u>		<u>\$78,525,805</u>

Sources: Los Angeles County Assessor

This report reflects general obligation debt which is being repaid through voter-approved indebtedness. It excludes revenue, mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation.

CITY OF MANHATTAN BEACH

COMPUTATION OF LEGAL DEBT MARGIN, DEBT LIMIT, AND RATIO OF
GENERAL BONDED DEBT TO ASSESSED VALUE AND PER CAPITALast Ten Fiscal Years
Unaudited

Fiscal Year	Estimated Population	Total Assessed Value	Legal Debt Limit 3.75%	Total General Bonded Debt	Legal Debt Margin	Ratio of Bonded Debt to Assessed Value	Bonded Debt Per Capita
1996	33,904	4,185,839,459	156,968,980	-	156,968,980	-	-
1997	34,514	4,241,389,776	159,052,117	-	159,052,117	-	-
1998	34,898	4,433,506,799	166,256,505	-	166,256,505	-	-
1999	35,355	4,729,631,254	177,361,172	-	177,361,172	-	-
2000	36,124	5,284,611,847	198,172,944	-	198,172,944	-	-
2001	34,898	5,806,346,824	217,738,006	-	217,738,006	-	-
2002	35,881	6,365,174,958	238,694,061	-	238,694,061	-	-
2003	35,285	6,923,341,436	259,625,304	-	259,625,304	-	-
2004	35,881	7,554,435,006	283,291,313	-	283,291,313	-	-
2005	36,321	8,216,800,523	308,130,020	-	308,130,020	-	-

Source: Los Angeles County Assessor

CITY OF MANHATTAN BEACH

DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2005
Unaudited

Water & Wastewater Improvement Projects

Fiscal Year	Principal	Interest	Total
2006	95,000	225,800	320,800
2007	100,000	220,595	320,595
2008	105,000	215,086	320,086
2009	110,000	209,308	319,308
2010	115,000	203,261	318,261
2011	120,000	196,930	316,930
2012	130,000	190,034	320,034
2013	135,000	182,581	317,581
2014	145,000	174,707	319,707
2015	155,000	166,267	321,267
2016	165,000	157,268	322,268
2017	175,000	147,596	322,596
2018	185,000	137,246	322,246
2019	195,000	126,322	321,322
2020	210,000	114,677	324,677
2021	220,000	102,315	322,315
2022	235,000	89,175	324,175
2023	250,000	75,110	325,110
2024	265,000	60,175	325,175
2025	285,000	44,225	329,225
2026	300,000	27,260	327,260
2027	320,000	9,280	329,280
Total	4,015,000	3,075,218	7,090,218

CITY OF MANHATTAN BEACH
DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2005
Unaudited

Marine Sports Field Capital Lease Refinancing

Fiscal Year	Principal	Interest	Total
2006	190,000	361,364	551,364
2007	200,000	353,287	553,287
2008	205,000	345,542	550,542
2009	210,000	335,975	545,975
2010	220,000	327,555	547,555
2011	230,000	318,255	548,255
2012	235,000	309,226	544,226
2013	245,000	298,384	543,384
2014	255,000	288,484	543,484
2015	265,000	277,758	542,758
2016	270,000	267,231	537,231
2017	280,000	255,094	535,094
2018	290,000	243,709	533,709
2019	305,000	231,389	536,389
2020	315,000	218,984	533,984
2021	325,000	205,164	530,164
2022	335,000	191,873	526,873
2023	350,000	177,720	527,720
2024	360,000	163,387	523,387
2025	375,000	147,741	522,741
2026	385,000	132,331	517,331
2027	400,000	116,140	516,140
2028	415,000	99,495	514,495
2029	430,000	81,808	511,808
2030	445,000	63,898	508,898
2031	460,000	45,260	505,260
2032	480,000	25,880	505,880
2033	495,000	5,774	500,774
Total	8,970,000	5,888,708	14,858,708

CITY OF MANHATTAN BEACH

DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2005

Unaudited

Metlox Parking Facility COPs, Series 2002

Fiscal Year	Principal	Interest	Total
2006	260,000	592,771	852,771
2007	265,000	587,571	852,571
2008	270,000	581,609	851,609
2009	280,000	574,184	854,184
2010	285,000	565,784	850,784
2011	300,000	555,809	855,809
2012	310,000	544,559	854,559
2013	325,000	532,159	857,159
2014	335,000	519,159	854,159
2015	350,000	505,759	855,759
2016	365,000	491,759	856,759
2017	380,000	476,246	856,246
2018	400,000	459,621	859,621
2019	415,000	441,621	856,621
2020	435,000	422,531	857,531
2021	455,000	402,413	857,413
2022	480,000	380,800	860,800
2023	500,000	358,000	858,000
2024	530,000	334,250	864,250
2025	555,000	307,750	862,750
2026	585,000	280,000	865,000
2027	615,000	250,750	865,750
2028	645,000	220,000	865,000
2029	680,000	187,750	867,750
2030	710,000	153,750	863,750
2031	750,000	118,250	868,250
2032	785,000	80,750	865,750
2033	830,000	41,500	871,500
Total	13,095,000	10,967,105	24,062,105

TABLE 10

CITY OF MANHATTAN BEACH

DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2005

Unaudited

Police and Fire Facility

Fiscal Year	Principal	Interest	Total
2006	-	861,750	861,750
2007	240,000	287,250	527,250
2008	245,000	569,700	814,700
2009	250,000	564,188	814,188
2010	255,000	557,938	812,938
2011	265,000	550,288	815,288
2012	275,000	541,675	816,675
2013	285,000	532,050	817,050
2014	295,000	522,075	817,075
2015	305,000	511,381	816,381
2016	315,000	499,944	814,944
2017	325,000	487,344	812,344
2018	340,000	474,344	814,344
2019	355,000	460,744	815,744
2020	370,000	446,544	816,544
2021	385,000	431,281	816,281
2022	400,000	414,919	814,919
2023	415,000	397,919	812,919
2024	435,000	380,281	815,281
2025	455,000	361,250	816,250
2026	475,000	338,500	813,500
2027	500,000	314,750	814,750
2028	525,000	289,750	814,750
2029	550,000	263,500	813,500
2030	580,000	236,000	816,000
2031	610,000	207,000	817,000
2032	640,000	176,500	816,500
2033	670,000	144,500	814,500
2034	705,000	111,000	816,000
2035	740,000	75,750	815,750
2036	775,000	38,750	813,750
Total	12,980,000	12,048,863	25,028,863

CITY OF MANHATTAN BEACH

MISCELLANEOUS STATISTICAL DATA

June 30, 2005
Unaudited

<u>Date of Incorporation</u>	December 12, 1912	<u>Parks and Recreation</u>	
<u>Form of Government</u>	General Law	Acres of recreational beach area	40
	Council/Manager	Acres of developed major parks	52
<u>Population</u>	33,852	Acres Manhattan Beach Parkway	22
<u>Area in Square Miles</u>	3.87	Acres Golf Course	20
<u>Streets and Alleys</u>		Community Centers	3
Miles of paved streets	120	<u>Business Licenses</u>	
Miles of paved alleys	12	Services	1,723
Street lights	2,537	Contractors & Subcontractors	1,203
<u>Sewers</u>		Home occupancy sales and services	615
Miles of sewers	110	Retail	408
Miles of storm drains	18	Professionals	404
<u>Fire protection</u>		Apartment houses	331
Stations	2	Commercial Property rental	171
Sworn positions	30	Miscellaneous	182
<u>Police protection</u>			<u>5,037</u>
Station	1	<u>Authorized positions</u>	
Sworn positions	61	Classified:	
<u>Education</u>		Elected Officials	6
Public Elementary Schools	5	Full-time service	266
Private Elementary Schools	5	Part-time service (FTE)	50
Public Secondary Schools	2	Exempt service	56
		Total positions	<u>378</u>

Sources: City of Manhattan Beach Finance

CITY OF MANHATTAN BEACH

PARKING METER REVENUES

Last Ten Fiscal Years
June 30, 2005
Unaudited

Year Ended June 30,	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Lot 6	Lot 7
1996	14,307	26,174	64,078	31,691	11,241	16,985	3,153
1997	15,443	29,841	67,748	36,638	13,413	17,865	3,696
1998	15,069	29,391	74,122	38,198	15,177	18,026	4,044
1999	17,087	26,458	76,352	36,708	12,217	16,667	4,358
2000	16,115	24,005	68,187	45,900	13,633	16,497	4,261
2001	17,928	29,071	81,644	45,211	13,590	17,846	5,667
2002	17,970	30,120	84,352	47,291	13,832	18,676	6,305
2003	26,241	47,853	137,919	78,593	22,363	27,966	9,213
2004	29,375	54,960	142,242	76,097	16,815	34,251	10,662
2005	28,207	53,214	147,059	72,756	0 (G)	34,023	9,249

This schedule does not reflect revenues from the lease of city operated parking spaces.
It is specific to parking meter collections only.

(A) Parking meters in the lower Pier Parking Lots were replaced with automated dispensers in FY 1996-1997.

(B) Street parking meter rates were increased from \$.25 to \$.50 per hour in FY 1998-1999.

(C) Street parking meter rates were increased from \$.50 to \$.75 per hour in FY 2000-2001
Source: City of Manhattan Beach Finance Department

(D) Parking dispenser in the Lower Pier Parking Lots were replaced with meters February, 2002.

(E) Lot parking meter rates were increased from \$.25 to \$.50 per hour effective May, 2002.

(F) Pier Lot Dispensers were removed effective March, 2002.

(G) Lot 5 was closed effective July 2004.

CITY OF MANHATTAN BEACH

PARKING METER REVENUES

Last Ten Fiscal Years
June 30, 2005
Unaudited

Lot M	Pier Lot Meters	Pier Lot Dispensers	26th Street Lot	El Porto Lot	Streets	Total
—	211,202	—	52,037	207,465	329,510	967,843
—	162,133	90,995 (A)	56,134	222,695	362,362	1,078,963
—	160,951	102,429	46,905	228,118	364,653	1,097,083
21,132	149,058	105,436	50,870	237,821	579,596 (B)	1,333,760
23,689	157,566	113,413	52,240	286,577	597,328	1,419,411
48,072	160,980	109,300	35,989	281,628	656,631 (C)	1,503,557
41,733	203,696	61,514	51,518	291,083	804,045 (D,E)	1,672,135
34,350	293,135	0 (F)	65,327	308,455	817,506	1,868,921
37,202	320,817	0	71,856	345,149	835,430	1,974,856
82,755	324,754	0	74,227	299,505	834,951	1,960,700

CITY OF MANHATTAN BEACH
SCHEDULE OF INSURANCE IN FORCE

June 30, 2005
(Unaudited)

<u>TYPE OF COVERAGE</u>	<u>POLICY NUMBER</u>	<u>FROM</u>
Liability		
Self-Insured	-	07/01/04
Excess Liability		
Independent Cities Risk Management ICRMA (Pool)	ICAPL 1014	07/01/04
Insurance Co. of State of PA	4704-1834	07/01/04
Lexington	6500590	07/01/04
Building & Property		
Lexington-Primary	8753235 (\$25Mil)	07/01/04
Other carriers	TBD (\$135,000 Mil)	
Workers' Comp.		
Self-Insured	-	07/01/04
Excess Workers' Comp.		
ICRMA (Pool)	ICRMA2004-1WC	07/01/04
California State Association of Counties (CSAC Excess Insurance Authority)	CPEIA-04-EWC-28	07/01/04
Public Officials, Faithful Performance & Fidelity Bonds		
Hartford	72BPEAG8698	12/12/04

Source: City of Manhattan Beach Human Resources Department

CITY OF MANHATTAN BEACH
SCHEDULE OF INSURANCE IN FORCE

June 30, 2005
(Unaudited)

<u>TO</u>	<u>LIMITS OF COVERAGE</u>	<u>ANNUAL PREMIUM</u>
07/01/05	\$500,000 per occurrence	-
07/01/05	\$1,500,000 excess of \$500,000	
07/01/05	\$8,000,000 excess of \$2,000,000	283,064
07/01/05	\$10,000,000 excess of \$10,000,000	
07/01/05	\$160,000,000 shared proportionally - earthquake and flood	196,778
07/01/05	\$750,000 per occurrence	-
07/01/05	\$1,000,000	155,904
07/01/05	\$99,000,000 excess of \$1,000,000	
12/12/05	\$500,000 each employee	1,749

CITY OF MANHATTAN BEACH
CONSTRUCTION VALUES AND BANK DEPOSITS

Last Ten Fiscal Years
Unaudited

Year ended June 30,	Construction Values				Bank Deposits (In Thousands)
	Residential		Commercial		
	No. of Permits	Valuation	No. of Permits	Valuation	
1996	881	35,794,602	137	11,740,661	825,913
1997	949	40,037,425	151	8,948,780	847,364
1998	1,340	63,633,640	186	39,450,678	908,050
1999	1,343	67,825,265	169	54,668,695	993,978
2000	1,239	65,943,978	154	7,200,221	857,696
2001	1,432	82,222,320	128	14,296,840	936,484
2002	1,217	68,645,537	147	8,401,778	1,105,733
2003	1,364	79,160,539	166	8,171,475	1,232,553
2004	1,448	88,135,971	93	18,566,460	1,451,632
2005	1,288	75,991,664	131	14,884,520	N/A

Sources: Construction values - City of Manhattan Beach Community Development Department
Bank deposits - The Findley Reports

TABLE 15

CITY OF MANHATTAN BEACH
TABLE OF SCHOOL ENROLLMENT

Last Ten Fiscal Years
Unaudited

<u>Year Ended June 30,</u>	<u>Elementary Schools</u>	<u>Mira Costa High School</u>	<u>Total</u>	<u>Percent Change from Prior year</u>
1996	3,295	1,975	5,270	6.42%
1997	3,425	2,052	5,477	3.93%
1998	3,641	2,198	5,839	6.61%
1999	3,729	2,122	5,851	0.21%
2000	3,748	2,094	5,842	-0.15%
2001	3,917	2,246	6,163	5.49%
2002	4,015	2,435	6,450	4.66%
2003	4,046	2,388	6,434	-0.25%
2004	4,027	2,327	6,354	-1.24%
2005	3,906	2,354	6,260	-1.48%

Source: Manhattan Beach City School District

CITY OF MANHATTAN BEACH
DEMOGRAPHIC STATISTICAL DATA

June 30, 2005

Unaudited

Population distribution by ethnic group:

	<u>Number of persons</u>	<u>Percent</u>
White	30,124	89%
Asian	2,043	6%
Black	208	1%
Native American	70	0%
Other	1,407	4%
	<u>33,852</u>	<u>100%</u>

Household type:

	<u>Number of households</u>	<u>Percent</u>
Family:		
Married couple	7,206	50%
Female head	846	6%
Male head	340	2%
Nonfamily	6,082	42%
	<u>14,474</u>	<u>100%</u>

Population distribution by age group:

	<u>Number of persons</u>	<u>Percent</u>
Under 5 years	2,197	6%
5-14	4,388	13%
15-24	2,344	7%
25-44	12,694	37%
45-59	7,404	22%
60-64	1,299	4%
65 and over	3,526	10%
	<u>33,852</u>	<u>100%</u>

Population distribution by gender:

	<u>Number of persons</u>	<u>Percent</u>
Male	17,052	50%
Female	16,800	50%
	<u>33,852</u>	<u>100%</u>

Source: Percentage and number of households - 2000 U.S. Census

C: Internal Control Compliance Letter



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

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 Manhattan Beach, California

We have audited the financial statements of the governmental activities, 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, 2005, and have issued our report thereon dated October 20, 2005. 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 of Manhattan Beach's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manhattan Beach's financial statements are free of material misstatements, 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*, issued by the Comptroller General of the United States of America.





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

This report is intended solely for the information of the City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

October 20, 2005