



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Wilson 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: January 18, 2005

SUBJECT: Presentation of the Comprehensive Annual Financial Report (CAFR) for June 30, 2004

RECOMMENDATION:

The Finance Subcommittee and staff recommend that the City Council: a) receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2003-2004 and b) increase the City's capitalization level for fixed assets (non infrastructure) from \$1,000 to \$5,000 as recommended by the City's auditors.

FISCAL IMPLICATION:

This action tonight provides the City's annual audited financial statements for the 2004 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 \$3.6 million which has come in above original 2004 budget projections.

BACKGROUND:

Attached is the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004 (Attachment "B"). This is the first independent audit report prepared by our new 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 2003-2004 audit. Their hard work was completed with the utmost professionalism and teamwork, while maintaining their objectivity. It is also the second 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 January 12th 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, 2004. As the CAFR indicates, 2003-2004 ended with the City in good fiscal health. The City again experienced a strong General Fund operating surplus (\$3.6 million); governmental revenues continue to be stable, with growth coming mainly from property tax; and 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.

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. This year's report again validates the City's financial accounting systems, procedures and management controls.

As we look forward, the current State budget crisis exists as a key factor to be considered. We will realize a \$700,000 loss of vehicle license fees in FY's 2004-2005 and 2005-2006. 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).

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 2003-2004 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, 2004.

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 26 and 27 which presents, at a glance, the City's budget-to-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 last year, 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 as of June 30, 2004, typically includes a formal Management Letter indicating internal control areas which are in need of improvement in the following years (See Attachment “C”). This letter, which is a customary and expected byproduct of the audit process, is intended to provide management with suggestions and guidance in the ongoing effort to improve internal controls. Staff has included a response to each of these points as Attachment “D” and will work to implement these changes in the coming months. Staff greatly appreciates these control reviews and any and all constructive or corrective suggestions raised by our auditors and encourages this open line of communication as we move forward into future engagements.

CONCLUSION:

The Finance Subcommittee and staff recommend that the City Council receive and file the 2003-2004 CAFR, and increase the City's non-infrastructure fixed asset capitalization level from the current \$1,000 to \$5,000 in accordance with auditor recommendation.

- Attachments:
- A: Audit Statement of Responsibilities
 - B. June 30, 2004 Comprehensive Annual Financial Report
 - C. Management Letter – Internal Control Findings
 - D. Management Letter Responses



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January 11, 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, 2004, and have issued our report thereon dated November 12, 2004. 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. As described in the notes to the financial statements, the City of Manhattan Beach changed accounting policies related to Deposits and Investments by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 40, *Deposits and Investment Risk Disclosures*, in fiscal year 2004. 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 of, or transactions for which there is a lack of authoritative guidance or consensus.





Finance Subcommittee
City of Manhattan Beach
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.



Finance Subcommittee
City of Manhattan Beach
Manhattan Beach, CA 90265

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

CITY OF MANHATTAN BEACH, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004



Prepared by the Finance Department

Bruce Moe, Finance Director

CITY OF MANHATTAN BEACH
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2004

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January 18, 2004

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, 2004 (FY2004)** 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). This report is also in compliance with the relevant requirements of Governmental Accounting, Auditing and Financial Reporting published by the Government Finance Officers Association of the United States and Canada. Responsibility for the accuracy, completeness and fairness of the data presented, including all disclosures, rests with management. We believe the information presented is accurate in all material aspects, and that it is reported in a manner designed to fairly present the financial position and results of operations of the various funds, account groups, and component unit of the City of Manhattan Beach. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

In terms of presentation and method, the 2004 report marks the second year of GASB statement 34 (GASB 34) implementation. Last year this report was completely reformatted to comply with the new reporting model developed by the GASB 34 and could not have been completed without City Council's full support in providing the resources and guidance needed to ensure financial reporting compliance. 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; introduction of newly developed asset valuation and depreciation policies; and identification of new computerized fixed asset management tools. In FY 2004, these practices were continued in compiling this year-end report.

GASB statement 34 is intended to improve financial reporting by adding significant information not previously provided in local government financial statements. Some of the most significant changes in reporting as required by this new standard are as follows:

- A major addition is the inclusion of the government wide financial statements which were designed to show the reader the net assets and equity of the City as a whole and report on the total cost of providing city services. To do so this new accounting model introduces a Statement of Net Assets and a Statement of Activities which are newly presented in the forefront of the CAFR document.
- These particular statements are prepared using the accrual basis of accounting versus the modified accrual method applied in the traditional fund financial statements. In the past the full accrual method of accounting, which is typical of private sector reporting, was only utilized for the City's enterprise funds or business activity operations. This accrual basis of accounting recognized revenue as earned as opposed to actual receipt, and expenses are recorded when the transaction occurs rather than when payment is made. In so far as the accrual method is applied to the government wide statements only, a reconciliation between city wide and fund statements is provided as a key to understanding the differences in reporting methods and results.
- The new model includes an emphasis on the City's major funds as shown in the Government Fund Statements. These new statements along with the citywide statements are further analyzed in a new required narrative called the Management Discussion and Analysis (MDA). This MDA provides financial highlights and interprets the financial reports by analyzing changes with an emphasis on the change in net assets and results of operations. The MDA is also intended to disclose any significant economic or legislative events or decisions that affect the financial condition of the City.

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.

DESCRIPTION OF REPORTING ENTITY

The City of Manhattan Beach was incorporated December 12, 1912, as a general law city in the State of California. The City operates under a Council-Manager form of government and provides the following services: police, fire, highway and streets, cultural and recreation, planning and zoning, utilities, and general administrative services.

The financial statements present the financial activity of the City of Manhattan Beach (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City, although it is a legally separate organization. However, the City of Manhattan Beach elected officials have continuing full or partial accountability for fiscal matters of this entity. The financial reporting entity consists of: (1) the City, (2) organizations for which the City is financially accountable, and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City.

Blended Component Units: The financial statements of the City of Manhattan Beach include the financial activities of the Manhattan Beach Capital Improvements Corporation. The Capital Improvements Corporation was formed on August 6, 1996 and first used to issue debt to finance capital improvements to the City's water and wastewater systems. In FY2002 this corporation issued \$9,535,000 in debt to refinance existing ground lease commitments for the newly opened Marine Avenue Sports Fields resulting in long term savings of both interest and principal. In January 2003, this entity issued \$13.35 million in fixed rate Certificates of Participation for the construction of a new two level downtown subterranean parking structure and outdoor plaza. In the fiscal year subsequent to the term of this report, fixed rate Certificates of Participation, discussed further below, were issued to fully fund the construction of the City's new Police and Fire facility.

SERVICE EFFORTS AND MAJOR INITIATIVES

Service Efforts

In FY 2004, the City of Manhattan Beach maintained a high level of service to its residents and citizens. The City adhered once again to its financial policies and adopted financial plan as evidenced by the budget-to-actual reporting presented within this document. \$53.1 million was originally budgeted to support the City's many services and programs. \$21.2 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 planned reserves have been established.

Some of the key capital improvements completed and/or initiated in 2004 include the following:

- \$6.8 million for substantial completion a new two level subterranean public parking structure at Metlox.
- \$5.6 million of construction costs for the new police/fire facility beyond design and engineering cost incurred in FY 2003.
- \$1.6 million of citywide street improvements related continuing the street resurfacing program, aviation resurfacing, 13th Street extension, and completing Strand Walkway design.
- \$229 thousand for improvements to Polliwog Park. This expenditure marks the completion of the second phase of this exciting park improvement.
- \$1.4 million for a variety of Water, Sewer and Storm Water utility facility and line improvements.

Major Initiatives

In FY 2004, 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 outlined a specific financing plan for the future construction of a new public safety facility to replace existing Police and Fire buildings that are outdated and limited in space. In fact, the City issued \$12.9 million in fixed rate Certificates of Participation for this project. This financing action fully funds the construction of the City's new Police and Fire facility when combined with accumulated reserves dedicated over the past several years. Project design and valuation was completed and is estimated to cost \$41 million including costs incurred to date. In the November 2001 election, the City sought voter approval of a \$15 million General Obligation Bond to facilitate the financing of this facility. The required two-thirds approval was not attained and the City proceeded to develop an internal financing plan. Alternative financing options in procuring the remaining balance of required funds were presented to City Council in FY2002. The City designated specific reserves of \$25 million in the Capital Projects Fund for this improvement in line with projections and ultimately made a decision to limit debt issuance to \$12 million. The resulting debt service will be financed through dedicated revenues earmarked within the Capital Improvement Fund. From inception through June 30, 2004, \$8 million in costs have been incurred on this project which remains within budget and is targeted for completion December 2005.

Metlox Improvements and Development: The City held a grand opening for the Metlox parking structure in January 2004. This structure holds 460 spaces which is a welcome addition to the City's downtown district. The public parking portion of the project was completed within budget and on schedule at a cost of \$14.6 million. Since the purchase of the Metlox site in 1997/1998 the City engaged a financial advisor, selected a development partner, completed conceptual design with community input, finalized an environmental impact report, and began construction in the current year. The private retail portion of this development will include a mix of hotel, retail, restaurant and office space elements, and the developer has entered into a long term ground lease with the City. This multi-million dollar project is projected to be a positive economic benefit adding to the City's ground lease, property, hotel, and retail tax revenue base. In concert with this private phase, the City will construct a 40,000 square foot town square along with the retail improvements. The City retains ownership of the underlying land, parking facilities and public open space. In May 2002 financing options were presented to City Council for the public parking and space component of this development. This resulted in a decision to debt finance \$11.6 million of the public project cost and increase dedicated parking meter revenues to assist funding the resulting future debt service. This plan was adopted and resulting certificates of participation were issued in January 2003. All debt financing, and capital transactions have been recorded in the parking enterprise fund and are backed by the strength of the City's overall credit. Construction on the private development began in the current year and the retail operations are schedule to open in the summer of 2005. City funded plaza improvements will be constructed contemporaneously.

Strand Improvement Project: In FY 2004-2005 the City budget appropriated an additional \$2.5 million towards the \$4.5 million cost for this exciting and necessary project. This capital project will be cash funded in entirety. In the current year costs of approximately \$300,000 were incurred in furthering a City Council approved design for 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 strand drainage systems, the introduction of viewing alcoves, updates to trash receptacles, and replacement of existing strand benches. This project, involved years of planning, community discussion and outreach and construction is scheduled to commence in FY 2005.

Utility Under-grounding: In the current year the City successfully facilitated the creation of three beach front utility under-grounding utility 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 and the resulting bond proceeds reimbursed the City for all originating costs incurred in the project lifecycle. In the end result the assessment district voting 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 should begin in FY 2005.

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 a new Police/Fire facility. The results of the credit rating came in at that time at the highest possible rating, "AAA," from both S&P and Fitch. With this good news, the City proceeded with its plans to issue bonds for both facilities starting with Metlox Certificates of Participation which were sold 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 in 2003, over \$4 million, and used these resources to increase cash funding in deriving the final debt sizing. 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.

Ongoing Water/Wastewater System Upgrade: In September 1996, the City issued \$4,615,000 in Certificates of Participation through the Manhattan Beach Capital Improvements Corporation to finance the upgrade of the City's water and wastewater systems. Through this aggressive five-year capital project, important Water and Sewer infrastructure improvements have been made throughout the City. Net revenues of the Water and Wastewater Funds secure the 30-year issue. As of June 30, 2004 all construction fund balances for Water and Wastewater have been expended. The related remaining debt service is recorded in each respective enterprise fund for a total outstanding principal amount of \$4,105,000.

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: Management of the City 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 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, 2003, 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 Government Code and a formal investment policy approved by the City Council. The policy, which is reviewed and updated annually, 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 the ICRMA, insurance coverage in excess of the self-insured amount is provided up to a limit of \$50,000,000. 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 following 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 it suffices to say that the 2003 year reflects very good financial results. In fact, this fund outpaced expectations coming in with an operating surplus of \$3.6 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 reached \$20.6 million after \$975,000 of transfers out to the Capital Improvement Fund. Under the GASB 34 model this fund reports an unreserved fund balance of \$20.24 million before policy and City Council designations. With financial policy, liability and uncertainty reserve limits considered, this fund reports an unreserved and undesignated fund balance of \$7.6 million which remains available for use at City Council's discretion at year end. As indicated above a portion of these funds were utilized to reduce the bond sizing for our new Police and Fire facility.

During the current fiscal year, General Fund revenues exceeded expenses by approximately \$3.6 million. After transfer activity, the fund balance increased by \$2.7 million. The transfer activity included:

- \$975,000 into the Capital Improvement Fund to further build reserves for the construction of the Strand Walkway and public safety facility.
- \$75,000 from County parking lot operations per contract.

The City's Policy Reserves and designations discussed above and presented in the General Fund at year end include the following:

- \$6.9 million in an ongoing operational financial policy reserve designed to cover 20% of budgetary funding requirements.
- \$2 million in economic uncertainty reserves to protect against sudden changes in the economic or legislative climate.
- \$2 million in pension stabilization reserves which was established in the current year given the known high dollar increases in employee retirement costs on the near horizon.
- \$1.6 million in reserves to cover vested employee leave benefits.

Although the rate 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	2003 Actual	2004 Actual	Variance
Property Tax	10.0 M	11.1 M	1.1 M
Sales Tax	7.2 M	7.3 M	.1 M
Hotel Tax	1.7 M	1.9 M	.2 M
Business License Tax	2.0 M	2.1 M	.1 M
License and Permits	1.5 M	1.6 M	.1 M
Fines	1.9 M	2.2 M	.3 M
Interest and Rent	3.1 M	2.3 M	(.8 M)
Vehicle In-Lieu	2.3 M	1.9 M	(.4 M)
Services	5.6 M	5.9 M	.3 M

On an overall basis, General Fund revenues increased by a respectable margin, 3%, and came in at 107% of our annual budget estimates with property tax being the clear front runner. Sales tax remained relatively flat while Hotel Tax showed a good 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 maintained prior year levels. On the other side of the equation, interest income has fallen heavily as predicted given the large use of cash reserves in a falling interest rate environment. Additionally, vehicle registration fee collections are down reflecting the State's two year deferral of such revenue. These results are quite reassuring considering the challenges that faced us at the State level this past year.

General Fund expenditures came in 3% below budget resulting in the surplus noted above. On the other hand, compared to last year, expenses have risen by 7%, or \$2.2 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

This year 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 2004, 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 \$1.2 million and capital expenditures equaled \$779,000. This fund transferred \$17.5 million to the newly create PFC Fund to seed the construction of this new safety facility.

At June 30, 2004 the total balance in the CIP Fund was \$9.2 million. Of this balance, \$8.2 million has been specifically earmarked for planned infrastructure projects leaving an unreserved and undesignated balance of \$22,154. Key designations at year end include:

- \$5.5 million for the construction of a new Police/ Fire facility
- \$2.6 million for improvements to the Strand walkway
- \$100 thousand for improvements to Artesia Boulevard

At the end of the current fiscal year the total fund balance in the PFC Fund was \$12 million which is completely dedicated for the construction of the new facility. This balance reflects the transfer in of \$17.5 million from the CIP fund reduced by \$5.7 million in current year construction costs. \$8 million has been expended on this project from inception through June 30, 2004.

At the end of the current fiscal year the total fund balance in the UAD Fund was \$1.5 million reflecting home owner assessment pre-payments held in trust for the future construction of these facilities. Bonds were issued in the subsequent period making up the balance of the \$5.1 million project cost. The total amount of cash holdings in this fund is restricted from use.

Special Revenue and Enterprise Funds

All other Governmental and Business Type funds performed within budget and have met financial projections and expectations. The City continues to see significant cost increases in insurance claims although we were pleased that a transfer into that Fund from the General fund was not necessary as had been the case in past years. Our city, along with the State, has identified rising insurance costs as one of the financial challenges to be reckoned with in future years. Ultimately the solution to this issue can only come through legislative change at both 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) compensation plan. 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 \$11,342,229 at June 30, 2004. This recognizes enacted legislation establishing the City as a plan trustee and protecting these employee-owned assets from external creditors.

Deferred Compensation Plan for Full-Time Employees: Management employees receive a City-paid contribution ranging from 2.5% to 4.5% of their salary into a 401(a) plan. The liability balances for these deferred compensation plans are recorded in the Special Deposits Fund along with restricted deposits held for safety operations and our Employee Section 125 Flexible Spending Plan.

City Pension Plans: This fund is used to account for the supplemental retirement and single highest year programs, dormant plans which were previously offered by the City. The Pension Trust Fund is used to account for the distribution of these plans for former employees still receiving benefits.

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 full-time 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. At the end of the day government wide capital assets have been valued on a gross basis at \$150 million and \$110 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 \$16 million before depreciation most of which results from the \$5.6 million capitalization of Police and Fire facility improvements and \$6.8 million in capitalized costs to complete the newly opened downtown underground parking structure. The remaining asset increase result improvements to city roadways, parks and utilities.

OTHER INFORMATION

Independent Audit: The accounting firm of Vavrinek, Trine, Day and Co., 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 new independent auditors, for their professionalism and diligence in preparing this year end financial report and again to Russell Morreale & Henry Mitzner for coordinating this audit transition in this second 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



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

Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
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, 2004, 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, 2004, 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 November 12, 2004 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 and grants.

The management's discussion and analysis on pages 3 through 18 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 basic financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Manhattan Beach. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The scope of our audit did not include the supplemental statistical schedules listed in the table of contents, and we do not express an opinion on them.

Lance, Soll & Lunghard, LLP

November 12, 2004

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, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found 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, 2004, by \$152,945,949 (*net assets*). Of this amount, \$63,363,635 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,604,668. 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, 2004, the City's governmental activities reported combined ending net assets of \$117,293,341, an increase of \$6,974,017, in comparison with the adjusted opening balance. \$49,133,592 (*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, 2004, the City's business activities reported combined ending net assets of \$35,652,608, an increase of \$1,630,651 in comparison with the adjusted opening balance. \$14,230,043 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, 2004, the balance in the General Fund was \$20,667,534, or 59% (seven months), of total General Fund expenditures. The General Fund reported excess revenues over expenditures of \$3,597,616 before net transfers out of \$900,000.
- Transfers out of approximately \$975,000 from the General Fund were made to pay for major capital initiatives including construction of a new Public Safety facility and accumulating reserves for future improvements to the Strand Walkway.
- The City's total bonded debt decreased by \$265,000 (1%) during the current fiscal year. This decrease was primarily attributable to the scheduled pay down of issued bonds in the General, Water, Wastewater and Parking funds. Other long term liability balances, including employee leave balances and insurance reserves, and capital leases remained near 2003 levels. In fiscal year 2004-2005, the City issued \$12.9 million in additional debt to fully fund the new Police and Fire facility.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

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 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.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

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 intrafund 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.

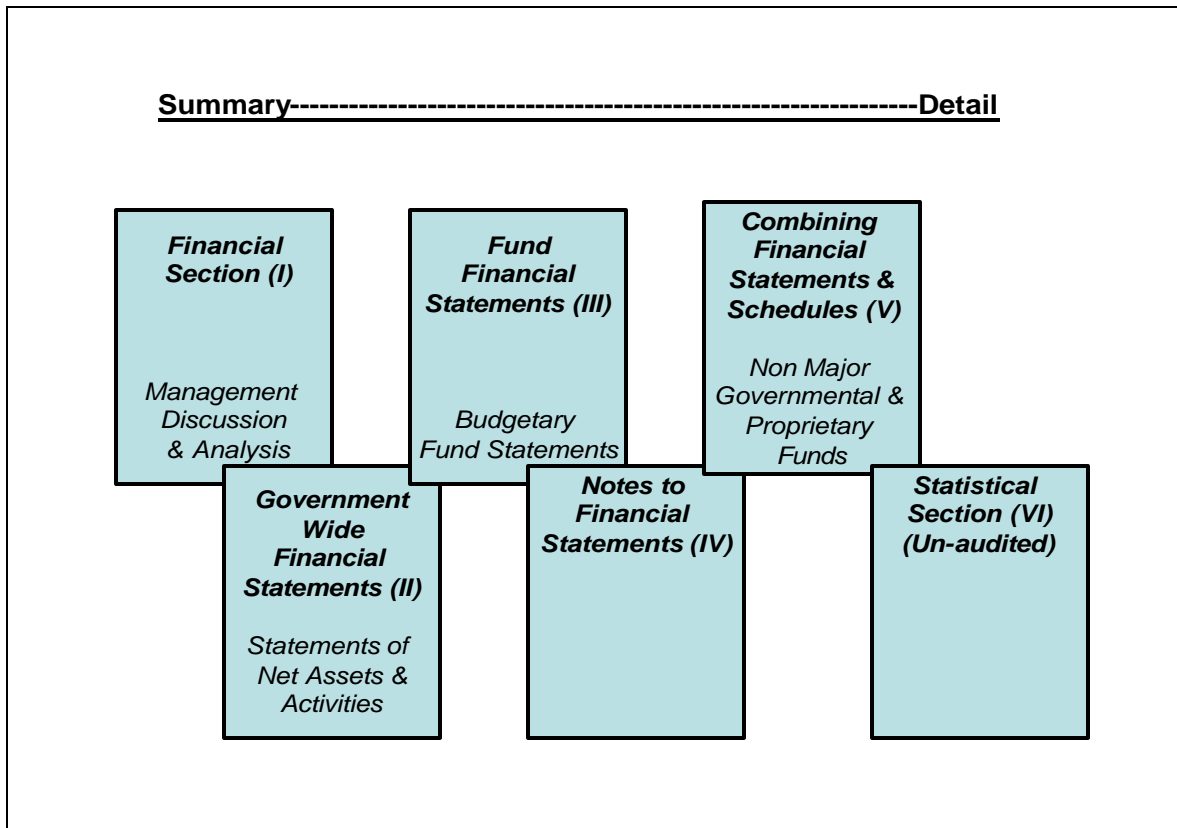
The City as Trustee

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 its 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 (Continued)**

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 \$152,945,949 at June 30, 2004.

By far, the largest portion of the City's net assets (55%) 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 (Continued)**

City of Manhattan Beach Net Assets

	Governmental Activities 2004	Business- Type Activities 2004	Total 2004	Total 2003
Current and other assets	\$ 61,590,789	\$ 20,545,358	\$ 82,136,147	\$ 87,007,714
Capital assets	75,655,611	34,558,438	110,214,049	96,415,474
Total Assets	137,246,400	55,103,796	192,350,196	184,423,188
Long-term liabilities outstanding	12,538,056	17,162,640	29,700,696	29,927,091
Other liabilities	7,415,003	2,288,548	9,703,551	10,288,662
Total Liabilities	19,953,059	19,451,188	39,404,247	40,215,753
Invested in net capital assets	66,438,114	17,103,437	83,541,551	69,362,413
Restricted	1,721,635	4,319,128	6,040,763	11,366,989
Unrestricted	49,133,592	14,230,043	63,363,635	63,478,033
Total Net Assets	\$117,293,341	\$ 35,652,608	\$ 152,945,949	\$ 144,207,435

A portion of the City's net assets (5%, or \$6,007,476), 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 (\$57,356,159) 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 \$8,604,668 governmental activities, as a group, increased by \$6,974,017 and accounted for most of the growth in the net assets of the City.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

City of Manhattan Beach Changes in Net Assets

	Governmental Activities 2004	Business- Type Activities 2004	Total 2004	Total 2003
Program revenues:				
Charges for services	\$ 11,047,726	\$ 13,130,824	\$ 24,178,550	\$ 22,939,805
Operating contributions and grants	2,110,230	11,230	2,121,460	2,647,473
Capital contributions and grants	2,449,473	198,959	2,648,432	994,616
General revenues:				
Property taxes	11,223,986	-	11,223,986	10,021,646
Other taxes	15,153,734	-	15,153,734	14,749,308
Other	2,578,674	302,082	2,880,756	4,051,200
Total Revenues	44,563,823	13,643,095	58,206,918	55,404,048
Expenses:				
General government	6,843,576	-	6,843,576	6,513,233
Public safety	19,786,367	-	19,786,367	17,783,757
Public works	6,596,160	-	6,596,160	6,444,626
Parks and recreation	4,300,710	-	4,300,710	4,012,233
Interest on long-term debt	137,993	-	137,993	128,240
Water, Waste, Storm	-	7,347,450	7,347,450	7,320,432
Refuse	-	3,147,820	3,147,820	3,090,089
Parking	-	1,442,174	1,442,174	1,612,275
Total Expenses	37,664,806	11,937,444	49,602,250	46,904,885
Revenues Over Expenses	6,899,017	1,705,651	8,604,668	8,499,163
Transfers In (Out)	75,000	(75,000)	-	-
Increase in Net Assets	6,974,017	1,630,651	8,604,668	8,499,163
Net Assets - July 1, 2003	110,319,324	33,888,111	144,207,435	135,708,272
Restatement	-	133,846	133,846	-
Net Assets - June 30, 2004	\$117,293,341	\$35,652,608	\$152,945,949	\$144,207,435

Key elements of this increase are as follows:

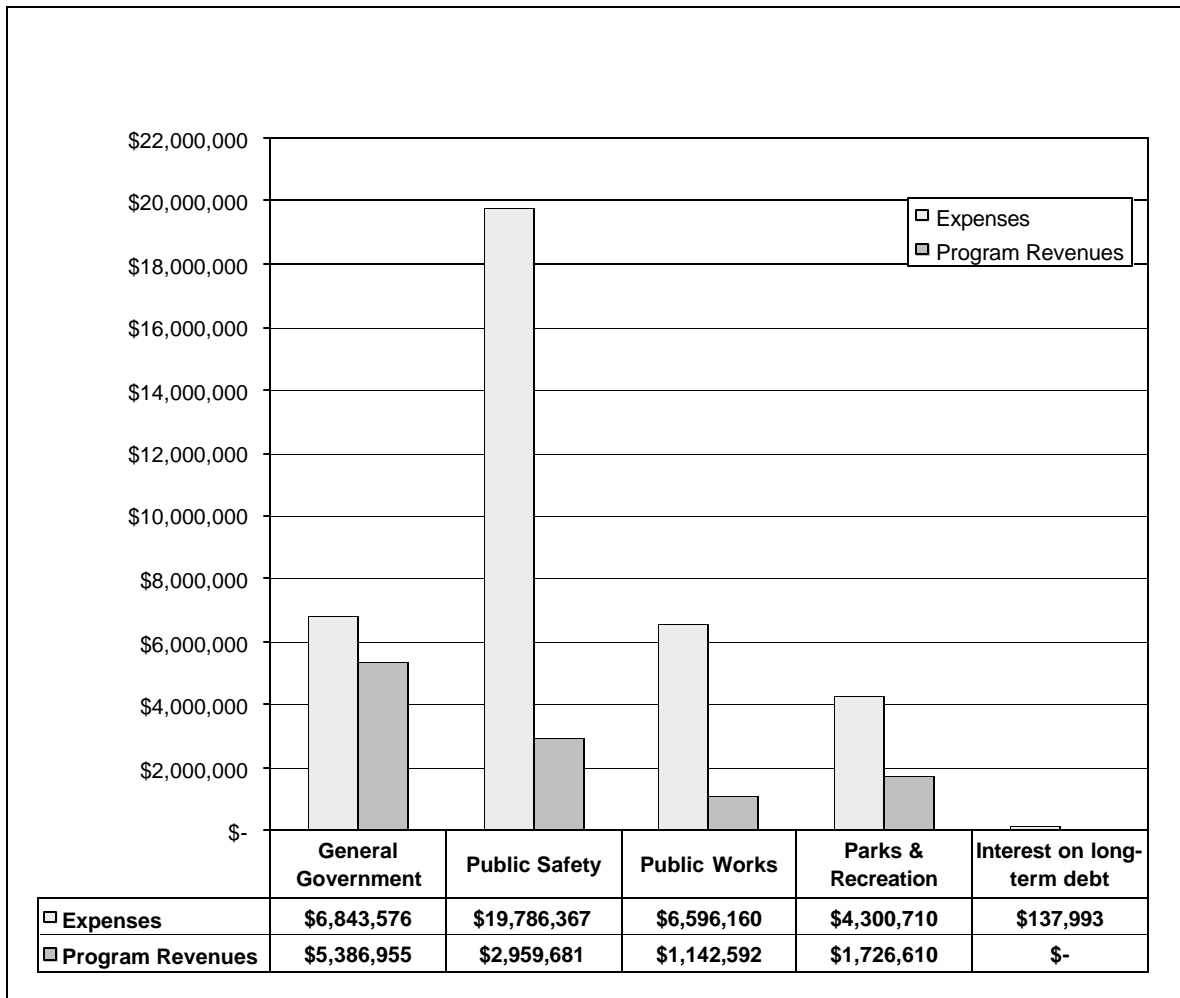
- In 2003-2004, the General Fund reported an operating surplus, before transfers, of \$3.6 million, which added to the overall strength of City-wide net asset balances.
- In 2003-2004, the Utility Funds reported an operating surplus, before transfers, of \$1.7 million, again, adding to the overall strength of City-wide net asset balances.
- In 2003-2004, the governmental group of funds benefited from \$1.5 million in one-time capital construction assessment pre-payments. This amount was recorded into a newly created Utility Underground Fund along with other capital improvement funds with the resulting pre-payments recorded as restricted cash holdings.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

- The difference in the method of accounting for capital assets in the governmental funds versus the statement of activities accounts for an increase of \$6.5 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 a decrease of working capital of \$5 million.
- 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 \$300,000. Governmental funds fully expend principal payments in the period they are paid. However, in the statement of activities, such payments reduce the related liability.

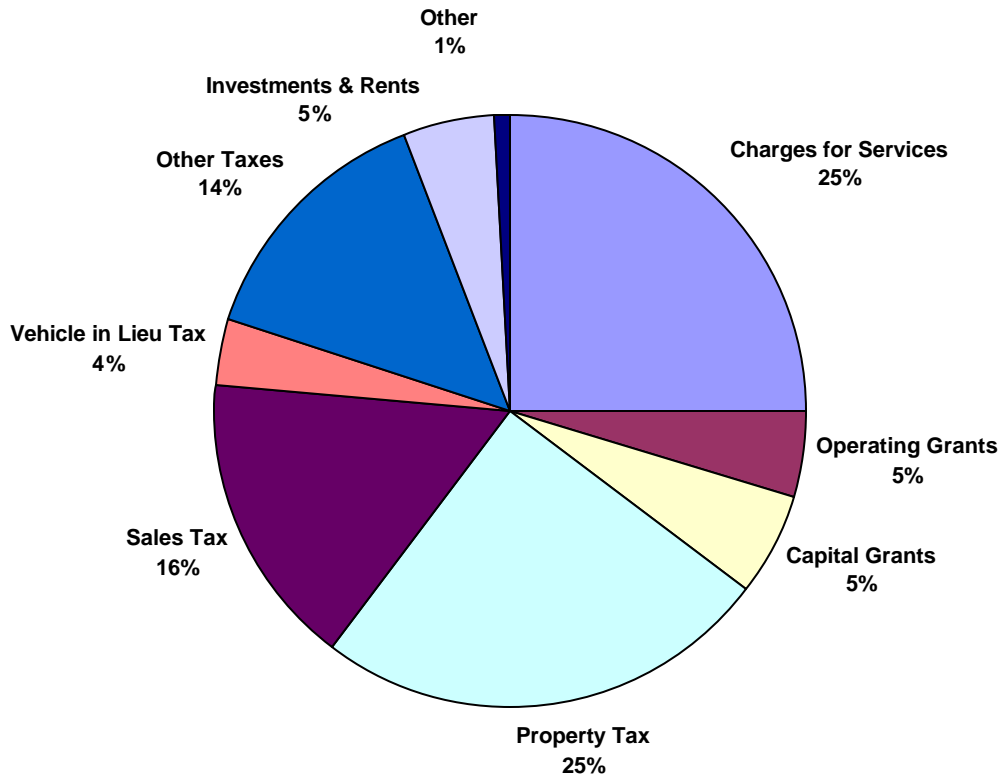
Government Activities

Expenses and Program Revenues - Governmental Activities - Fiscal Year 2004



City of Manhattan Beach
Management's Discussion and Analysis (Continued)

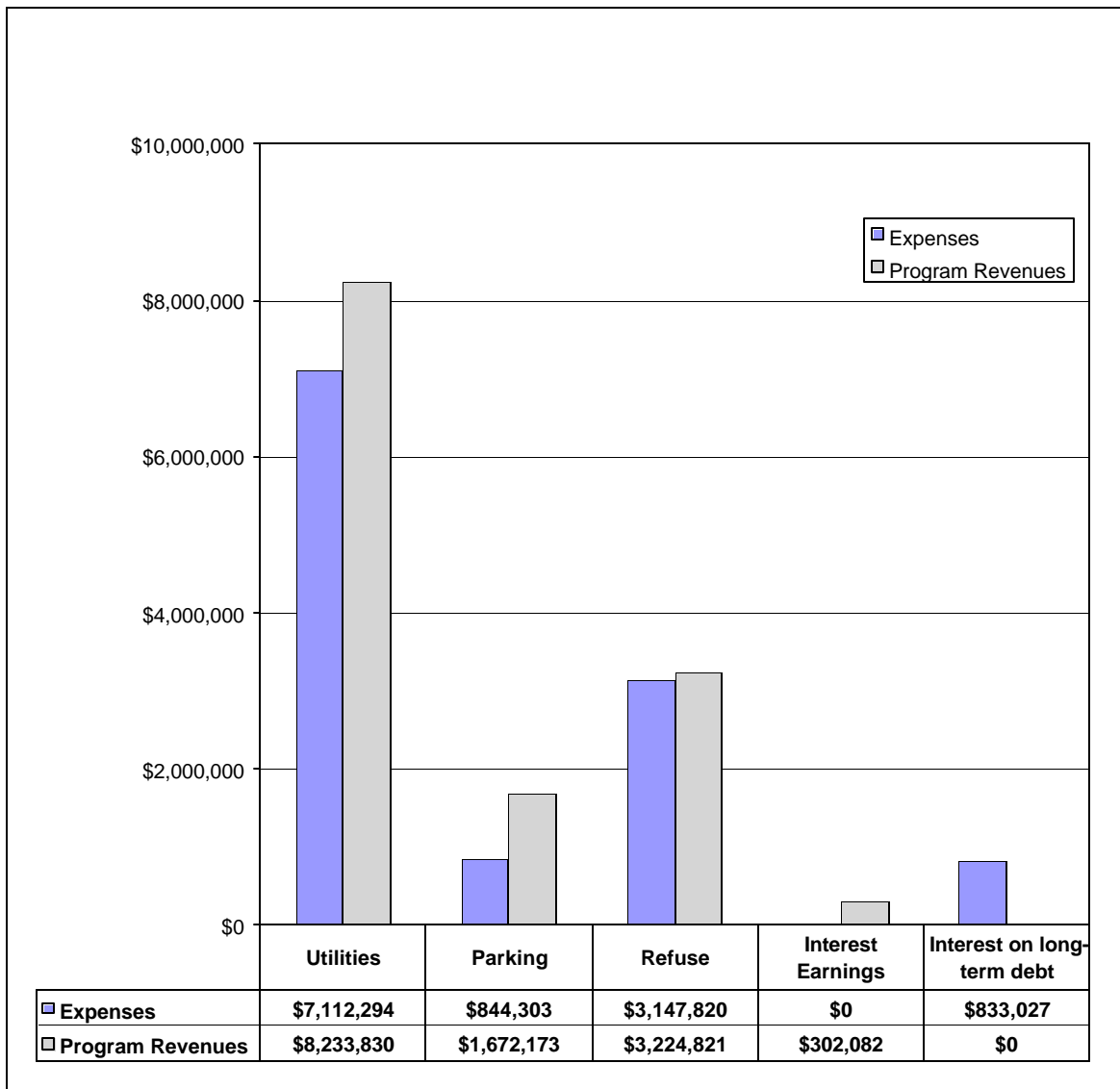
Revenues by Source - Governmental Activities - Fiscal Year 2004



**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

Business Type Activities

Expenses and Program Revenues - Business Type Activities - Fiscal Year 2004

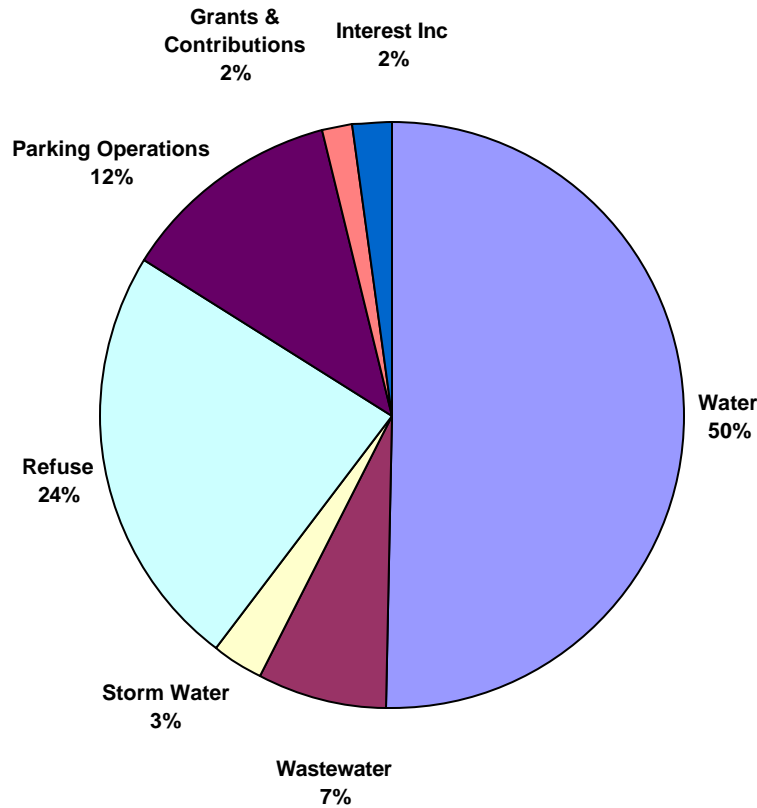


The City's business-type operations include several major service areas:

- Water
- Wastewater
- Storm Water
- Refuse
- Parking

City of Manhattan Beach
Management's Discussion and Analysis (Continued)

Revenues by Source - Business Type Activities FY 2004



In fiscal year 2003-2004, revenues for the City's business type activities amounted to \$13,643,095, including \$210,189 in grants and contributions. All other revenue is derived from operations and investment earnings. Total operating expenses equaled \$11,937,444 for a positive operating income of \$1,705,651 before transfers. When considering the impact of the transfer out of \$75,000 from the parking funds, net assets increased by \$1,630,651 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 \$49.3 million, an increase of \$700,000 in comparison with the prior year. Approximately 88% of this total amount, \$43.3 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: 1) to liquidate construction contracts and purchase orders of the prior period (\$5.98 million), and 2) to reserve for prepaid items and debt service (\$97,723).

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

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 \$43.3 million unreserved governmental fund balance noted above, \$32.5 million has been designated by City Council actions, and \$3 million remain in restricted use special revenue funds. Considering these designations, \$7.8 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 \$20.2 million, while total fund balance reached \$20.7 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 58% of total General Fund expenditures, while total fund balance represents 59% of that same amount.

During the current fiscal year, General Fund revenues exceeded expenses by approximately \$3.6 million. Along with transfer activity out of this fund of \$900,000, fund balance increased by \$2.7 million. The current year transfer activity included:

- \$975,000 transferred to the Capital Improvement Fund to further build reserves for the construction of the new public safety facility and Strand Walkway improvements;
- \$75,000 received from the County Lot Fund in accordance with existing agreements.

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-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 \$8.19 million, while total fund balance reached \$9.19 million. It is critical to note that \$8.16 million of the unreserved balance has been specifically earmarked for planned infrastructure projects leaving an unreserved and undesignated balance of \$22,154 as indicated in Note 7 to these financial statements. Key designations at year-end include:

- \$5.50 million for the construction of a new Police and Fire facility
- \$2.56 million for improvements to the Strand Walkway
- \$100 thousand for improvements to Artesia Boulevard

During the current fiscal year, the fund balance of the City's Capital Improvement Fund decreased significantly by \$15.7 million mainly due to the following transfer activity from and to the fund. These transfers mark the final chapter in a planned accumulation of reserves to finance the City's most significant capital projects, the Police and Fire Facility and the Strand Walkway:

- \$17.5 million to the Police and Fire Construction Fund
- \$975 thousand from the General Fund for capital project funding

Dedicated revenues in this fund amounted to \$1.2 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:

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

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 \$324,244 of revenue for the year, an amount which is 6% above prior year levels marking a 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 \$550,026 this fiscal year. Actual revenues were ahead of budget estimates and 3% above 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 \$124,496 this current year, an increase of 14% over the prior year.

Capital Improvement Fund expenditures equaled \$779,260, which included \$295,000 in design costs for the Strand Walkway project, \$229,057 in Polliwog Park improvements, and \$288,346 for other City-wide projects. The Strand Walkway project will extend into fiscal year 2004-2005 and is projected to cost \$4.5 million. \$2.6 million in designated reserves for this project have been set aside within the Capital Improvement Fund in the current year with the balance being designated in fiscal year 2004-2005.

As mentioned above \$17.5 million was transferred from the Capital Improvement Fund to the newly created Police and Fire Construction Fund in the current year. Beyond this transfer, the Capital Improvement Fund has designated an additional \$5.5 million in reserves, which will be used to fund the project schedule for completion in December 2005. 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 approximates \$41 million and will be funded through a combination of cash reserves and debt issuance.

Other Governmental Funds

Other nonmajor 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 2003-2004, these funds operated within budget guidelines. Combined fund balances at year-end approximated \$6 million, an increase of \$322,949 over 2003. 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 \$35.7 million, of which \$14.2 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 \$1.7 million before transfers. Net assets increased for all funds by \$1.6 million including a \$75,000 transfer out to the General Fund from county parking lot operations.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

Unrestricted net assets of the internal service funds at the end of the year amounted to \$2.4 million with a net assets total of \$4.4 million. Net assets decreased by \$192,294 mostly due to continued rising insurance costs and investments made in updating our technology systems.

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 parking meter revenue of \$46,000 over the prior year and \$167,000 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.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of \$685,224 and can be briefly summarized as follows:

- \$586,354 to roll forward 2002-2003 active purchase orders provided for in prior reserve balances and budgets.
- \$84,000 of funding for Fire Department mutual aid overtime in response to regional California fires.
- \$11,237 of funding for police uniforms and safety equipment.
- \$3,633 of assistance funding for beach litter patrol.

\$98,870 of the current year budget adjustments was appropriated from available fund balance. On an overall basis within the General Fund, expenditures were \$1.1 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, 2004, amounts to \$110,214,049 (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 2004	Business- Type Activities 2004	Total 2004	Total 2003
Land	\$ 33,634,566	\$ 1,757,434	\$ 35,392,000	\$ 35,392,000
Buildings	10,872,609	13,284,936	24,157,545	12,310,379
Machinery and Equipment	1,630,502	334,733	1,965,235	1,538,610
Vehicles	1,955,587	-	1,955,587	2,047,398
Infrastructure	27,562,347	19,181,335	46,743,682	45,127,087
Total	\$ 75,655,611	\$ 34,558,438	\$ 110,214,049	\$ 96,415,474

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

During the current fiscal year, several large dollar additions to governmental capital assets were realized making up an overall increase of \$8.2 million. These additions include the following:

- \$5.6 million of inception to date work in progress costs towards the construction of a new Police and Fire facility. Construction commenced in February 2004 following design and engineering costs incurred in the prior year.
- \$1.6 million of City-wide street improvement projects the bulk of which related to the City-wide street resurfacing program, Aviation resurfacing, construction of the new 13th Street extension and Strand Walkway improvement design costs.
- \$786,979 of vehicle and machinery purchases.
- \$229,000 of Polliwog Park improvements.

During the current fiscal year, several large dollar additions to business activity assets were realized making up an overall increase of and additional \$8.2 million. These additions include the following:

- \$6.8 million for the substantial completion of the Metlox two-level subterranean parking structure, which opened for use in fiscal year 2003-2004. Approximately \$2 million remains to be spent in the next year for completion of utility extensions and the public plaza.
- \$1.4 million in Water, Storm and Wastewater system improvements mainly related the upgrade of water valve systems, line improvements and the 13th Street extension project.

Additional information on the City's capital assets can be found in Note 5 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 \$30,437,037. Of this amount, \$26,610,000 relates to outstanding Certificates of Deposit. A breakdown of this debt is as follows:

City of Manhattan Beach Outstanding Liabilities

	Governmental Activities 2004	Business- Type Activities 2004	Total 2004	Total 2003
Marine Ave Park COPs	\$ 9,155,000	\$ -	\$ 9,155,000	\$ 9,335,000
Capital Equipment Lease	62,495	-	62,495	178,061
Accrued Employee Leave and Benefits	1,741,710	57,645	1,799,355	1,764,049
Water and Wastewater COPs	-	4,105,000	4,105,000	4,190,000
Metlox Parking COPs	-	13,350,000	13,350,000	13,350,000
Insurance Claim Reserves	1,965,188	-	1,965,188	1,631,245
Total Liabilities	12,924,393	17,512,645	30,437,038	30,448,355
Current	386,338	350,004	736,342	521,264
Long-Term Liabilities	\$ 12,538,055	\$ 17,162,640	\$ 29,700,696	\$ 29,927,091

The City's total debt decreased by \$226,395 (1%) during the current fiscal year due to scheduled principal payments.

**City of Manhattan Beach
Management's Discussion and Analysis (Continued)**

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 \$283,291,313. Additional information on the City's long-term debt can be found in Note 6 of this financial report.

ECONOMIC OUTLOOK

The budget for fiscal year 2004-2005 was adopted by the City Council in June 2004. 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 \$14.6 million, this parking structure is the first phase of a joint public-private development several years in 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. Completion is anticipated for summer 2005. These facilities will surround the City-owned town square which will be used as public open space and for City-programmed activities. 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. Design has been ongoing for the past couple of years, and in the current year, a contract was awarded for the construction of the new facility. The total cost of construction is budgeted at \$41 million. Construction began in February 2004 with completion scheduled for December 2005. Preliminary project costs of nearly \$8 million for services such as architectural and engineering have been incurred through fiscal year 2003-2004. This project will be funded through the use of existing City reserves which have been funded in full through the fiscal year 2004 -2005 budget. 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.

The construction of the Police and Fire facility will consume \$20 million in working capital and require the related debt service to be funded 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 as is evident in the City's capital improvement plan.

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 is scheduled to commence in early 2005.

Utility Under-grounding

The 2004-2005 capital improvement plan includes \$5.15 million, including reimbursement costs, for the completion of utility under-grounding as approved by voter initiatives within three beach-front districts. In August 2004, the City administered the issuance of \$3.3 million in special assessment district bonds 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. 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 (Continued)**

Other capital improvements for fiscal year 2004-2005 include \$1.4 million in street improvements, and \$1 million in Water, Wastewater and Storm Water line improvements, the most substantial being \$500,000 for annual line replacements.

ECONOMIC FACTORS

While the California economy has displayed constant growth over the past year, we are still cognizant of a number of economic and legislative 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, has experienced growth of 7% to 12% in each of the past few years. While we don't expect such rates of growth to continue, we are confident that the housing market will remain vibrant. Sales Tax has seen little growth recently, but as the national and local economies rebound, we are encouraged by modest gains in this area and stability through the recovery period. Transient Occupancy Tax, which suffered greatly from the effects of September 11, came in at a 7% increase from the lows of the past two years as we hope to get back to 2001 levels. All in all our largest revenue streams appear to be holding their own.

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 vehicle license fees in both fiscal year 2005 and 2006. Additionally, the state will divert one fourth of our sales tax revenues, but replace it dollar-for-dollar with property tax. While this appears to be revenue neutral, the conversion of sales tax to property tax will change our cash flow 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.

Interest earnings projections are especially important to highlight as we look forward. 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 in fiscal year 2004-2005 will result in a significant decline for this revenue source. Considering rate reductions and the use of \$17.5 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 2004-2005. 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. City forecasts predict an increase of annual operating costs approximating \$2 million beginning in fiscal year 2004-2005. Clearly the maintenance of cost control plays a critical role in balancing the fiscal equation considering the relative slow rate of revenue growth currently in play.

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.

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current:			
Cash and investments	\$ 56,228,464	\$ 15,335,363	\$ 71,563,827
Receivables:			
Accounts	277,606	850,645	1,128,251
Taxes	1,844,008	-	1,844,008
Accrued interest	374,921	-	374,921
Due from other governments	272,382	-	272,382
Prepaid costs	35,227	-	35,227
Inventories	92,369	48,230	140,599
Total Current Assets	59,124,977	16,234,238	75,359,215
Noncurrent:			
Restricted assets:			
Cash and investments	1,721,635	3,922,930	5,644,565
Unamortized debt issuance costs	-	388,190	388,190
Note receivable	744,177	-	744,177
Capital assets not being depreciated	33,634,566	1,757,434	35,392,000
Capital assets, net of depreciation	42,021,045	32,801,004	74,822,049
Total Noncurrent Assets	78,121,423	38,869,558	116,990,981
Total Assets	137,246,400	55,103,796	192,350,196
Liabilities:			
Current:			
Accounts payable	2,414,310	1,441,921	3,856,231
Accrued liabilities	1,397,901	-	1,397,901
Accrued leave payable	138,843	5,004	143,847
Unearned revenue	680,787	-	680,787
Deposits payable	434,027	119,991	554,018
Interest payable	-	376,632	376,632
Worker compensation claims	1,961,722	-	1,961,722
General liability claims	139,918	-	139,918
Long-term liabilities due within one year	247,495	345,000	592,495
Total Current Liabilities	7,415,003	2,288,548	9,703,551
Noncurrent:			
Long-term liabilities due in more than one year	12,538,056	17,162,640	29,700,696
Total Liabilities	19,953,059	19,451,188	39,404,247
Net Assets:			
Invested in capital assets, net of related debt	66,438,114	17,103,437	83,541,551
Restricted for:			
Business improvements districts	-	396,198	396,198
Debt service	1,721,635	3,922,930	5,644,565
Unrestricted	49,133,592	14,230,043	63,363,635
Total Net Assets	\$ 117,293,341	\$ 35,652,608	\$ 152,945,949

CITY OF MANHATTAN BEACH

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Governmental Activities:				
General government	\$ 6,843,576	\$ 5,218,843	\$ 192,667	\$ -
Public safety	19,786,367	2,959,681	134,578	-
Public works	6,596,160	1,142,592	1,284,604	2,449,473
Culture and recreation	4,300,710	1,726,610	498,381	-
Interest on long-term debt	137,993	-	-	-
Total Governmental Activities	\$ 37,664,806	\$ 11,047,726	\$ 2,110,230	\$ 2,449,473
Business-Type Activities:				
Water	6,109,964	6,847,731	-	-
Storm water	244,160	377,119	-	198,959
Wastewater	993,326	1,008,980	-	-
Refuse	3,147,820	3,224,821	11,230	-
Parking	1,442,174	1,672,173	-	-
Total Business-Type Activities	11,937,444	13,130,824	11,230	198,959
Total Primary Government	\$ 49,602,250	\$ 24,178,550	\$ 2,121,460	\$ 2,648,432

General Revenues:

Taxes:

- Property taxes, levied for general purpose
- Transient occupancy taxes
- Sales taxes
- Franchise taxes
- Business licenses taxes
- Other taxes

- Motor vehicle in lieu
- Use of money and property
- 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
\$ (1,432,066)	\$ -	\$ (1,432,066)
(16,692,108)	-	(16,692,108)
(1,719,491)	-	(1,719,491)
(2,075,719)	-	(2,075,719)
(137,993)	-	(137,993)
(22,057,377)	-	(22,057,377)
-	737,767	737,767
-	331,918	331,918
-	15,654	15,654
-	88,231	88,231
-	229,999	229,999
-	1,403,569	1,403,569
-	1,403,569	(20,653,808)
11,223,986	-	11,223,986
2,183,162	-	2,183,162
7,262,693	-	7,262,693
929,251	-	929,251
2,134,588	-	2,134,588
1,009,327	-	1,009,327
1,634,713	-	1,634,713
2,313,667	302,082	2,615,749
265,007	-	265,007
75,000	(75,000)	-
29,031,394	227,082	29,258,476
6,974,017	1,630,651	8,604,668
110,319,324	33,888,111	144,207,435
-	133,846	133,846
\$ 117,293,341	\$ 35,652,608	\$ 152,945,949

CITY OF MANHATTAN BEACH

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	Capital Projects Funds			
	General	Capital Improvement	Safety and Civic Center Construction	Underground Assessment District
Assets:				
Pooled cash and investments	\$ 21,122,342	\$ 9,180,995	\$ 13,183,096	\$ -
Receivables:				
Accounts	266,736	-	-	-
Taxes	1,844,008	-	-	-
Accrued interest	374,921	-	-	-
Prepaid costs	22,727	-	12,500	-
Due from other governments	102,392	93,059	-	-
Restricted assets:				
Cash and investments	86,561	-	-	1,635,074
Total Assets	\$ 23,819,687	\$ 9,274,054	\$ 13,195,596	\$ 1,635,074
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 707,068	\$ 54,466	\$ 1,201,763	\$ 19,090
Accrued liabilities	1,327,436	33,073	37,392	-
Accrued leave payable	138,843	-	-	-
Unearned revenue	680,787	-	-	-
Deposits payable	298,019	-	-	136,008
Total Liabilities	3,152,153	87,539	1,239,155	155,098
Fund Balances:				
Reserved for:				
Encumbrances	350,515	-	165,882	-
Continuing projects	-	999,749	-	-
Construction	-	-	-	1,479,976
Prepaid costs	22,727	-	12,500	-
Debt service	62,496	-	-	-
Unreserved, reported in:				
General fund	20,231,796	-	-	-
Special revenue funds	-	-	-	-
Capital project funds	-	8,186,766	11,778,059	-
Total Fund Balances	20,667,534	9,186,515	11,956,441	1,479,976
Total Liabilities and Fund Balances	\$ 23,819,687	\$ 9,274,054	\$ 13,195,596	\$ 1,635,074

Exhibit C

Other Governmental Funds	Total Governmental Funds
\$ 6,273,552	\$ 49,759,985
8,326	275,062
-	1,844,008
-	374,921
-	35,227
76,931	272,382
-	1,721,635
\$ 6,358,809	\$ 54,283,220
\$ 351,333	\$ 2,333,720
-	1,397,901
-	138,843
-	680,787
-	434,027
351,333	4,985,278
89,813	606,210
2,894,839	3,894,588
-	1,479,976
-	35,227
-	62,496
-	20,231,796
3,022,824	3,022,824
-	19,964,825
6,007,476	49,297,942
\$ 6,358,809	\$ 54,283,220



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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund balances of governmental funds	\$ 49,297,942
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.	73,700,023
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(10,820,362)
Long-term notes receivables are not current available resources and, therefore, are not reported in the governmental funds.	744,177
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>4,371,561</u>
Net assets of governmental activities	<u><u>\$ 117,293,341</u></u>

CITY OF MANHATTAN BEACH

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	<u>Capital Projects Funds</u>			
	<u>General</u>	<u>Capital Improvement</u>	<u>Safety and Civic Center Construction</u>	<u>Underground Assessment District</u>
Revenues:				
Taxes and assessments	\$ 24,285,616	\$ 324,244	\$ -	\$ 1,492,722
Licenses and permits	1,592,806	50,876	-	-
Intergovernmental	1,850,933	114,081	-	-
Charges for services	5,898,946	550,026	-	-
Use of money and property	2,346,253	-	-	6,344
Fines and forfeitures	2,170,037	124,498	-	-
Miscellaneous	347,635	-	-	-
Total Revenues	38,492,226	1,163,725	-	1,499,066
Expenditures:				
Current:				
General government	6,636,125	90,778	-	-
Public safety	19,670,728	2,124	5,543,559	-
Culture and recreation	3,899,887	229,057	-	-
Public works	4,687,870	457,301	-	19,090
Total Expenditures	34,894,610	779,260	5,543,559	19,090
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,597,616	384,465	(5,543,559)	1,479,976
Other Financing Sources (Uses):				
Transfers in	75,000	1,344,651	17,500,000	-
Transfers out	(975,000)	(17,500,000)	-	-
Total Other Financing Source (Uses)	(900,000)	(16,155,349)	17,500,000	-
Net Change in Fund Balances	2,697,616	(15,770,884)	11,956,441	1,479,976
Fund Balances, Beginning of Year	17,969,918	24,957,399	-	-
Fund Balances, End of Year	\$ 20,667,534	\$ 9,186,515	\$ 11,956,441	\$ 1,479,976

Exhibit E

Other Governmental Funds	Total Governmental Funds
\$ 1,279,129	\$ 27,381,711
-	1,643,682
1,674,222	3,639,236
5,342	6,454,314
70,249	2,422,846
-	2,294,535
88,625	436,260
3,117,567	44,272,584
-	6,726,903
49,076	25,265,487
356,418	4,485,362
2,019,473	7,183,734
2,424,967	43,661,486
692,600	611,098
-	18,919,651
(369,651)	(18,844,651)
(369,651)	75,000
322,949	686,098
5,684,527	48,611,844
\$ 6,007,476	\$ 49,297,942

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds	\$	686,098
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is 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:</p>		
Cost of assets capitalized		7,985,698
Depreciation expense		(1,483,266)
<p>Revenue from principal payment received from notes receivable are 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.</p>		
		(32,585)
<p>The statement of activities reports a gain or loss on the sale of the asset based on the proceeds received and the net book value at the time of the sale. The loss on disposal of the asset is calculated as follows:</p>		
Cost of assets disposed		(687,839)
Accumulated depreciation of the assets disposed		434,580
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		295,566
<p>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.</p>		
		(31,295)
<p>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 is reported with governmental activities.</p>		
		(192,940)
Change in net assets of governmental activities	\$	6,974,017

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 22,419,025	\$ 22,419,025	\$ 24,285,616	\$ 1,866,591
Licenses and permits	1,313,045	1,313,045	1,592,806	279,761
Intergovernmental	2,133,850	2,133,850	1,850,933	(282,917)
Charges for services	5,056,000	5,140,000	5,898,946	758,946
Use of money and property	2,687,575	2,687,575	2,346,253	(341,322)
Fines and forfeitures	1,979,250	1,979,250	2,170,037	190,787
Miscellaneous	406,200	409,833	347,635	(62,198)
Total Resources	35,994,945	36,082,578	38,492,226	2,409,648
Charges to Appropriation (Outflow):				
General government	6,763,372	7,250,282	6,636,125	614,157
Public safety	20,071,515	20,219,431	19,670,728	548,703
Culture and recreation	3,928,212	3,967,407	3,899,887	67,520
Public works	4,596,620	4,607,823	4,687,870	(80,047)
Total Charges to Appropriations	35,359,719	36,044,943	34,894,610	1,150,333
Other Financing Sources:				
Transfers in	-	75,000	75,000	-
Transfers out	-	(975,000)	(975,000)	-
Total Other Financing Sources	-	(900,000)	(900,000)	-
Net Change in Fund Balances	635,226	(862,365)	2,697,616	3,559,981
Fund Balance, Beginning of Year	17,969,918	17,969,918	17,969,918	-
Fund Balance, End of Year	\$ 18,605,144	\$ 17,107,553	\$ 20,667,534	\$ 3,559,981

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2004

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Assets:			
Cash and investments	\$ 8,888,621	\$ 1,065,964	\$ 1,302,541
Receivables:			
Accounts	465,114	34,912	64,240
Due from other governments	-	-	-
Inventories	48,230	-	-
Total Assets	9,401,965	1,100,876	1,366,781
Restricted assets:			
Cash and investments	227,096	-	111,494
Total Restricted Assets	227,096	-	111,494
Noncurrent:			
Unamortized debt issuance costs	83,935	-	41,291
Fixed assets - net of accumulated depreciation	10,639,831	3,877,573	4,979,549
Total Noncurrent Assets	10,723,766	3,877,573	5,020,840
Total Assets	\$ 20,352,827	\$ 4,978,449	\$ 6,499,115
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 797,531	\$ 42,354	\$ 11,793
Accrued leave payable	5,004	-	-
Interest payable	52,072	-	25,624
Workers' compensation claims	-	-	-
General liability claims	-	-	-
Deposits payable	3,470	114,598	-
Current portion of bonds payable	60,330	-	29,670
Total Current Liabilities	918,407	156,952	67,087
Noncurrent:			
Bonds, notes and loans payable	2,691,040	-	1,323,960
Accrued leave long-term	52,640	-	-
Workers' compensation claims	-	-	-
Liability claims	-	-	-
Total Noncurrent Liabilities	2,743,680	-	1,323,960
Total Liabilities	3,662,087	156,952	1,391,047
Net Assets:			
Invested in capital assets, net of related debt	7,888,461	3,877,573	3,625,919
Restricted for debt service	227,096	-	111,494
Restricted for business improvement district	-	-	-
Unrestricted	8,575,183	943,924	1,370,655
Total Net Assets	16,690,740	4,821,497	5,108,068
Total Liabilities and Net Assets	\$ 20,352,827	\$ 4,978,449	\$ 6,499,115

See Notes to Financial Statements

Exhibit H

Refuse	Parking	Nonmajor Enterprise Funds	Totals	Internal Service Fund
\$ 675,733	\$ 1,824,184	\$ 1,578,320	\$ 15,335,363	\$ 6,468,479
286,214	165	-	850,645	-
-	-	-	-	2,544
-	-	-	48,230	92,369
961,947	1,824,349	1,578,320	16,234,238	6,563,392
-	3,584,340	-	3,922,930	-
-	3,584,340	-	3,922,930	-
-	262,964	-	388,190	-
-	15,061,485	-	34,558,438	1,955,587
-	15,324,449	-	34,946,628	1,955,587
\$ 961,947	\$ 20,733,138	\$ 1,578,320	\$ 55,103,796	\$ 8,518,979
\$ 255,013	\$ 179,784	\$ 155,446	\$ 1,441,921	\$ 80,590
-	-	-	5,004	-
-	298,936	-	376,632	-
-	-	-	-	1,961,722
-	-	-	-	139,918
155	1,220	548	119,991	-
-	255,000	-	345,000	-
255,168	734,940	155,994	2,288,548	2,182,230
-	13,095,000	-	17,110,000	-
-	-	-	52,640	-
-	-	-	-	1,856,532
-	-	-	-	108,656
-	13,095,000	-	17,162,640	1,965,188
255,168	13,829,940	155,994	19,451,188	4,147,418
-	1,711,485	-	17,103,438	1,955,587
-	3,584,340	-	3,922,930	-
-	396,198	-	396,198	-
706,779	1,211,175	1,422,326	14,230,042	2,415,974
706,779	6,903,198	1,422,326	35,652,608	4,371,561
\$ 961,947	\$ 20,733,138	\$ 1,578,320	\$ 55,103,796	\$ 8,518,979

CITY OF MANHATTAN BEACH

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
MAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Operating Revenues:			
Sales and service charges	\$ 6,847,731	\$ 377,119	\$ 1,008,980
Miscellaneous	-	-	-
Total Operating Revenues	<u>6,847,731</u>	<u>377,119</u>	<u>1,008,980</u>
Operating Expenses:			
Salaries and wages	506,772	10,907	109,325
Employee benefits	165,807	41,316	20,178
Contract and professional services	3,348,580	14,134	28,871
Materials and services	519,270	6,737	96,815
Utilities	171,550	-	19,081
Administrative service charges	969,600	48,348	498,924
Leases and rents	-	-	-
Depreciation	263,694	122,718	139,105
Total Operating Expenses	<u>5,945,273</u>	<u>244,160</u>	<u>912,299</u>
Operating Income (Loss)	<u>902,458</u>	<u>132,959</u>	<u>96,681</u>
Nonoperating Revenues (Expenses):			
Intergovernmental	-	198,959	-
Interest revenue	101,363	11,872	13,888
Interest expense	<u>(164,691)</u>	<u>-</u>	<u>(81,027)</u>
Total Nonoperating Revenues (Expenses)	<u>(63,328)</u>	<u>210,831</u>	<u>(67,139)</u>
Income (Loss) Before Transfers	839,130	343,790	29,542
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	<u>839,130</u>	<u>343,790</u>	<u>29,542</u>
Net Assets:			
Beginning of Fiscal Year, as originally reported	15,717,764	4,477,707	5,078,526
Restatements	<u>133,846</u>	<u>-</u>	<u>-</u>
Beginning of Fiscal Year, as restated	<u>15,851,610</u>	<u>4,477,707</u>	<u>5,078,526</u>
End of Fiscal Year	<u>\$ 16,690,740</u>	<u>\$ 4,821,497</u>	<u>\$ 5,108,068</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>
\$ 3,224,821	\$ 922,325	\$ 749,848	\$ 13,130,824	\$ 5,174,901
-	-	-	-	214,580
3,224,821	922,325	749,848	13,130,824	5,389,481
-	39,815	18,462	685,281	824,748
-	3,691	2,141	233,133	212,080
2,829,958	45,367	110,704	6,377,614	358,439
33,750	112,057	34,247	802,876	3,555,400
468	45,275	30,801	267,175	130,273
283,644	77,992	27,684	1,906,192	111,114
-	-	233,727	233,727	-
-	47,917	-	573,434	390,367
3,147,820	372,114	457,766	11,079,432	5,582,421
77,001	550,211	292,082	2,051,392	(192,940)
11,230	-	-	210,189	-
7,398	157,360	10,201	302,082	-
-	(612,294)	-	(858,012)	-
18,628	(454,934)	10,201	(345,741)	-
95,629	95,277	302,283	1,705,651	-
-	-	(75,000)	(75,000)	-
95,629	95,277	227,283	1,630,651	(192,940)
611,150	6,807,921	1,195,043	33,888,111	4,564,501
-	-	-	133,846	-
611,150	6,807,921	1,195,043	34,021,957	4,564,501
\$ 706,779	\$ 6,903,198	\$ 1,422,326	\$ 35,652,608	\$ 4,371,561
			\$ 1,630,651	
			\$ 1,630,651	

CITY OF MANHATTAN BEACH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	Business-Type Activities - Enterprise Funds		
	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 6,778,789	\$ 538,905	\$ 998,345
Cash received from interfund service provided			-
Cash paid to supplies for good and services	(3,778,450)	(53,685)	(134,833)
Cash paid to employees for services	(598,605)	(59,255)	(129,478)
Cash paid for interfund services used	(1,255,189)	(41,571)	(512,645)
Net Cash Provided (Used) by Operating Activities	<u>1,146,545</u>	<u>384,394</u>	<u>221,389</u>
Cash Flows from Noncapital Financing Activities:			
Cash transfer to other funds	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(917,174)	(362,947)	(137,909)
Principal paid on capital debt	(56,971)	-	(28,029)
Interest paid on capital debt	(160,358)	-	(78,896)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,134,503)</u>	<u>(362,947)</u>	<u>(244,834)</u>
Cash Flows from Investing Activities:			
Interest received	101,363	11,872	13,885
Net Cash Provided (Used) by Investing Activities	<u>101,363</u>	<u>11,872</u>	<u>13,885</u>
Net Increase (Decrease) in Cash and Cash Equivalents	113,405	33,319	(9,560)
Cash and Cash Equivalents at Beginning of Year	9,002,312	1,032,645	1,423,595
Cash and Cash Equivalents at End of Year	<u><u>\$ 9,115,717</u></u>	<u><u>\$ 1,065,964</u></u>	<u><u>\$ 1,414,035</u></u>

See Notes to the Financial Statements

Business-Type Activities Enterprise Funds				Governmental Activities - Internal Service Funds
Refuse	Parking	Other Enterprise Funds	Total	
\$ 3,226,366	\$ 1,565,313	\$ 1,149,848	\$ 14,257,566	\$ 181,697
-	-	-	-	5,393,742
(2,858,341)	(269,664)	(388,532)	(7,483,505)	(3,969,772)
-	(43,506)	(20,603)	(851,447)	(956,728)
(297,622)	(672,841)	(25,656)	(2,805,524)	(455,885)
70,403	579,302	715,057	3,117,090	193,054
-	-	(75,000)	(75,000)	-
-	-	(75,000)	(75,000)	-
-	(8,427,253)	-	(9,845,283)	(328,928)
-	-	-	(85,000)	-
-	(543,619)	-	(782,873)	-
-	(8,970,872)	-	(10,713,156)	(328,928)
7,397	157,360	10,201	302,078	-
7,397	157,360	10,201	302,078	-
77,800	(8,234,210)	650,258	(7,368,988)	(135,874)
597,933	13,642,734	928,062	26,627,281	6,604,353
\$ 675,733	\$ 5,408,524	\$ 1,578,320	\$ 19,258,293	\$ 6,468,479

CITY OF MANHATTAN BEACH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	Business-Type Activities - Enterprise Funds		
	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Reconciliation of Operating Income to net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 902,458	\$ 132,959	\$ 96,681
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	263,694	122,718	139,105
Miscellaneous revenue	-	235,920	-
(Increase) decrease in accounts receivable	(89,245)	211	(10,635)
(Increase) decrease in inventories	11,384	-	-
(Increase) decrease in prepaid expense	-	-	-
Increase (decrease) in accounts payable	54,327	(52,012)	(3,762)
Increase (decrease) in accrued liabilities	976	-	-
Increase (decrease) in deposits payable	2,951	(55,402)	-
Increase (decrease) in claims payable	-	-	-
	<u>244,087</u>	<u>251,435</u>	<u>124,708</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,146,545</u></u>	<u><u>\$ 384,394</u></u>	<u><u>\$ 221,389</u></u>

Business-Type Activities Enterprise Funds				Governmental Activities - Internal Service Funds
Refuse	Parking	Other Enterprise Funds	Total	
\$ 77,001	\$ 550,211	\$ 292,082	\$ 2,051,392	\$ (192,940)
-	47,917	-	573,434	390,367
11,231	-	-	247,151	-
(9,686)	90,840	400,000	381,485	22,818
-	-	-	11,384	(2,544)
-	-	-	-	(4,061)
(8,143)	(110,506)	22,975	(97,121)	(52,920)
-	-	-	976	(1,120)
-	840	-	(51,611)	(954)
-	-	-	-	34,408
(6,598)	29,091	422,975	1,065,698	385,994
\$ 70,403	\$ 579,302	\$ 715,057	\$ 3,117,090	\$ 193,054

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Pension Trust Fund	Special Deposits Agency Fund
Assets:		
Cash and investments	\$ 904,620	\$ 1,754,966
Total Assets	\$ 904,620	\$ 1,754,966
Liabilities:		
Accounts payable	\$ -	\$ 5,261
401(a) plan deposits	-	849,907
Utility development deposits	-	619,874
Art development fees	-	207,429
Other deposits	-	62,495
Due to other agencies	-	10,000
Total Liabilities	-	\$ 1,754,966
Net Assets:		
Held in trust for pension benefits and other purposes	\$ 904,620	

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Pension Trust Fund</u>
Additions:	
City contributions	\$ 10,000
Investment earnings:	
Interest	<u>39,700</u>
Total Additions	<u>49,700</u>
Deductions:	
Benefits	<u>81,697</u>
Total Deductions	<u>81,697</u>
Changes in net assets	(31,997)
Net Assets - Beginning of the Year	<u>936,617</u>
Net Assets - End of the Year	<u>\$ 904,620</u>

CITY OF MANHATTAN BEACH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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 summer 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 calendar 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)

This is the first year the City of Manhattan Beach has adopted the following new financial reporting requirements of the Government Accounting Standards Board:

Statement No. 40 - *Deposit and Investment Risk Disclosures* - an amendment of GASB Statement No. 3:

GASB Statement No. 40 establishes and modifies disclosure requirements related to deposits held with financial institutions, investments (including repurchase agreements) and reverse repurchase agreements and addresses additional risks to which governments are exposed. The new accounting guidance requires that state and local governments communicate key information about deposit and investment risks, frequently one of the largest assets on a government's balance sheet, and to do so in an easily understandable manner.

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. This year 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 interdepartmental operations where it is the stated intent that costs of providing services to the departments of the City on a continuing basis be financed or recovered primarily by charges to the user departments.

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

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

Fiduciary Fund Types

Trust and Agency Funds - to account for assets held by the City as trustee or agent or individuals, private organizations or other governmental units and/or other funds. These include Pension Trust Funds, Agency Funds and Special Assessment Funds.

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 to 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 reduces this category.

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

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

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

Represent the net assets of the City, not restricted for any project or other purpose.

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 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 Fund 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 Projects Fund accounts for financial resources segregated for the acquisition or construction of major capital facilities, other than those financed by Enterprise or Internal Service 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 Capital Project 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 of, and improvements to, the City's storm drains. Revenues are derived from a storm drain assessment to property owners, which is based on size and use of the parcel, and collected through the property tax roles.

Wastewater Fund is used to account for the maintenance of, and improvements to, 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 and recycling services in the City. The City bills both residential and commercial properties. Rates were not increased during this fiscal year.

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 preceding 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, \$1,000. 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, 2004, 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	20 - 40
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 and outstanding water, wastewater, and Marine Avenue Sports Field, Metlox 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 and business-type activities have not been eliminated.

j. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term obligations are recorded as liabilities in the applicable governmental activities, business-type activities or proprietary fund-type statements 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 \$2,101,640 and \$1,965,188, 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 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, 2004, the total accrued liability for this benefit amounted to \$43,923, 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 6). 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 plan.

m. Allocation of Interest Income Among Funds

The City pools all nonrestricted 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 City-wide 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.

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

Note 2: Cash and Investments

As of June 30, 2004, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 57,950,099
Business-type activities	19,258,293
Fiduciary funds	<u>2,659,586</u>
Total Cash and Investments	<u>\$ 79,867,978</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, 2004. 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.

Deposits

At June 30, 2004, the carrying amount of the City's deposits was \$1,885,339, and the bank balance was \$1,904,338. The \$18,999 difference represents outstanding checks and other reconciling items.

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, 2004, the City's investment in medium-term notes consisted of investments with AIG SunAmerica, Wells Fargo & Co., and United Services Auto Association. At June 30, 2004, all MTN's were rated "A" or higher by Moody's. All securities were investment grade and were legal under state and City law. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2004, the City's investments in external investment pools and money market mutual funds are unrated.

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, 2004, none of the City's deposits or investments were exposed to custodial credit risk.

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

Note 2: Cash and Investments (Continued)

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, 2004, the City has not invested more than 50% 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.

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, 2004, the City had the following investments and original maturities:

	<u>Investment Maturities (in Years)</u>		<u>Book Value</u>	<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 - 5</u>		
Pooled Investments:				
Fund	\$ 39,935,367	\$ -	\$ 40,000,000	\$ 39,935,367
Liquid money market mutual funds	15,932,505	-	15,932,505	15,932,505
US Treasury and agency notes	-	14,526,345	14,526,345	14,543,520
Medium-term notes	3,665,360	-	3,665,360	3,561,755
	<u>\$ 59,533,232</u>	<u>\$ 14,526,345</u>	<u>\$ 74,124,210</u>	<u>\$ 73,973,147</u>
Investment with Fiscal Agents:				
Metlox certificates of participation			\$ 3,584,340	\$ 3,584,340
Marine certificates of participation			86,561	86,561
Water/wastewater revenue bonds			338,591	338,591
			<u>\$ 4,009,492</u>	<u>\$ 4,009,492</u>
Other Funds and Deposits:				
401(a) employee plan			\$ 849,907	\$ 849,907
Demand deposits			961,552	961,552
Other deposits			72,119	72,119
Petty cash			1,761	1,761
			<u>\$ 1,885,339</u>	<u>\$ 1,885,339</u>
Grand Total			<u>\$ 80,019,041</u>	<u>\$ 79,867,978</u>

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

Note 2: Cash and Investments (Continued)

c. 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
- 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.

d. 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.

e. Cash and Investments - 401 (a) Plan

The City contributes to a 401(a) plan to its management confidential employees into which these employees can make voluntary contributions. The fair value of the plan assets at June 30, 2004 was \$849,907.

f. Fair Value of Investments

Accounting pronouncement GASB Statement No. 31 generally applies to investments in external investment pools, investments purchased with maturities greater than one year, mutual funds and certain investment agreements. Generally, governmental entities need to report the "fair value" changes for these investments at year-end and records these gains or losses on their income statement.

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

Note 2: Cash and Investments (Continued)

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, 2004, \$151,063 of unrealized loss was recorded in the investment portfolio.

California State Treasurer's Local Agency Investment Fund (LAIF) - The City holds an investment in LAIF that is subject to being adjusted to "fair value." 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 \$40,000,000 whose pro-rata share of fair value was estimated by the State Treasurer to be \$39,935,367.

The State Treasurer's Local Agency Investment Fund is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provides oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool.

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, 2004 are presented below:

	Transfers To:			Total
	General Fund	Capital Improvement Fund	Safety and Civic Center Construction	
Transfers From:				
Major Governmental Funds:				
General Fund	\$ -	\$ 975,000	\$ -	\$ 975,000
Capital Improvements Fund	-	-	17,500,000	17,500,000
Nonmajor Proprietary Fund	75,000	369,651	-	444,651
Total	<u>\$ 75,000</u>	<u>\$ 1,344,651</u>	<u>\$ 17,500,000</u>	<u>\$ 18,919,651</u>

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

A \$975,000 transfer out of the General Fund to the Capital Improvement Fund to increase reserves for Strand Walkway improvements and the construction of a new Police and Fire facility.

A \$17,500,000 transfer out of the Capital Improvements Fund into the Police and Fire Construction Fund for funding of the Public Safety Facility as planned for in the City budget.

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

Note 3: Interfund Transactions (Continued)

A \$75,000 transfer into the General Fund from the County State Lot Fund per existing operating agreements.

A \$369,651 transfer from the Street Lighting to Capital Improvement Fund for Strand Walkway improvements

Note 4: Lease and Notes Receivable

The City owns land leased to others upon which a tennis complex, office building, hotel and golf course have been constructed by the lessees. The City receives rental payments, which consist of a base rental plus a percentage of gross revenues, which exceed the base rental.

The tennis complex and office building lease expires in October 2042 and upon expiration, tenants have the option of extending the lease for two additional 15-year periods. The hotel and golf course lease expires in February 2033 and upon expiration, tenants have the option of extending the lease for two additional 25-year periods. At the end of the lease terms (including renewal options), title to the improvements will revert to the City. The lease payments received are recorded as revenue in the General Fund.

In February 1997, the City sold two tracts of land, which were property of the Parking Fund. Total consideration for this sale was \$190,218 of which \$150,000 was received in the form of a promissory note. The note was secured by a deed of trust, bears interest at a rate of 8% and was scheduled to mature in April 2007. In fiscal year 2004, this note receivable was paid in full.

Note 5: 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, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 33,634,566	\$ -	\$ -	\$ 33,634,566
 Total Capital Assets, Not Being Depreciated	 33,634,566	 -	 -	 33,634,566
Capital assets, being depreciated:				
Buildings and structures	7,789,599	5,636,463	(600,895)	12,825,167
Machinery and equipment	3,641,750	488,423	(86,944)	4,043,229
Vehicles	4,865,015	298,556	(77,730)	5,085,841
Streets and roadways	32,586,643	1,631,756	-	34,218,399
Parks and recreation	10,613,251	229,058	-	10,842,309
 Total Capital Assets, Being Depreciated	 59,496,258	 8,284,256	 (765,569)	 67,014,945

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 5: Capital Assets and Depreciation (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities (continued):				
Less accumulated depreciation:				
Buildings and structures	(2,213,435)	(94,114)	354,991	(1,952,558)
Machinery and equipment	(2,210,342)	(281,973)	79,588	(2,412,727)
Vehicles	(2,817,617)	(390,367)	77,730	(3,130,254)
Streets and roadways	(13,580,548)	(949,677)	-	(14,530,225)
Parks and recreation	(2,810,633)	(157,503)	-	(2,968,136)
Total Accumulated Depreciation	(23,632,575)	(1,873,634)	512,309	(24,993,900)
Total Capital Assets, Being Depreciated, Net	35,863,683	6,410,622	(253,260)	42,021,045
Governmental Activities Capital Assets, Net	\$ 69,498,249	\$ 6,410,622	\$ (253,260)	\$ 75,655,611
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
Total Capital Assets, Not Being Depreciated	1,757,434	-	-	1,757,434
Capital assets, being depreciated:				
Buildings and structures - parking	7,252,204	6,579,788	-	13,831,992
Machinery and equipment - parking	442,770	246,381	-	689,151
Water	16,694,923	983,233	-	17,678,156
Storm water	5,812,748	264,220	-	6,076,968
Wastewater	9,171,135	141,025	-	9,312,160
Total Capital Assets, Being Depreciated	39,373,780	8,214,647	-	47,588,427
Less Accumulated Depreciation:				
Buildings and structures - parking	(517,989)	(29,067)	-	(547,056)
Machinery and equipment - parking	(335,568)	(18,850)	-	(354,418)
Water	(7,082,598)	(263,694)	-	(7,346,292)
Storm water	(2,084,328)	(122,718)	-	(2,207,046)
Wastewater	(4,193,506)	(139,105)	-	(4,332,611)
Total Accumulated Depreciation	(14,213,989)	(573,434)	-	(14,787,423)
Total Capital Assets, Being Depreciated, Net	\$ 25,159,791	\$ 7,641,213	\$ -	\$ 32,801,004
Business-Type Activities Capital Assets, Net	\$ 26,917,225	\$ 7,641,213	\$ -	\$ 34,558,438

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

Note 5: Capital Assets and Depreciation (Continued)

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

Governmental Activities:	
General government	\$ 169,529
Public safety	392,780
Public works	1,094,904
Culture and recreation	216,421
	<u>216,421</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,873,634</u>
Business-Type Activities:	
Water	\$ 263,694
Storm water	122,718
Wastewater	139,105
Parking	47,917
	<u>47,917</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 573,434</u>

Note 6: Long-Term Liabilities

The following is a summary of changes in long-term liability for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Long-term debt:					
Capital lease	\$ 178,061	\$ -	\$ (115,566)	\$ 62,495	\$ 62,495
Marine Avenue certificate of participation	9,335,000	-	(180,000)	9,155,000	185,000
Other long-term liabilities:					
Supplemental leave allowance	110,054	-	(66,131)	43,923	-
Compensated absences	1,597,327	100,460	-	1,697,787	138,843
Workers' compensation claims	1,526,471	330,062	-	1,856,533	-
General liability claims	104,774	3,882	-	108,656	-
	<u>104,774</u>	<u>3,882</u>	<u>-</u>	<u>108,656</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	<u>\$ 12,851,687</u>	<u>\$ 434,404</u>	<u>\$ (361,697)</u>	<u>\$ 12,924,394</u>	<u>\$ 386,338</u>
Business-Type Activities:					
Long-term debt:					
Water fund certificate of participation	\$ 2,808,330	\$ -	\$ (56,960)	\$ 2,751,370	\$ 60,330
Wastewater fund certificate of participation	1,381,670	-	(28,040)	1,353,630	29,670
Metlox certificate of participation	13,350,000	-	-	13,350,000	255,000
Other long-term liabilities:					
Compensated absences	56,668	976	-	57,644	5,004
	<u>56,668</u>	<u>976</u>	<u>-</u>	<u>57,644</u>	<u>5,004</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 17,596,668</u>	<u>\$ 976</u>	<u>\$ (85,000)</u>	<u>\$ 17,512,644</u>	<u>\$ 350,004</u>

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

Note 6: 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 and ending this next fiscal year, November 2004. Each payment includes interest at an imputed annual rate of 6.58%.

Annual debt service requirements to maturity for the capital lease are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>\$ 62,495</u>	<u>\$ 1,512</u>	<u>\$ 64,007</u>

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 Ave. Certificates of Participation are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 185,000	\$ 366,553	\$ 551,553
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
2010-2014	1,185,000	1,541,904	2,726,904
2015-2019	1,410,000	1,275,180	2,685,180
2020-2024	1,685,000	957,127	2,642,127
2025-2029	2,005,000	577,515	2,582,515
2030-2033	<u>1,880,000</u>	<u>140,813</u>	<u>2,020,813</u>
Total	<u>\$ 9,155,000</u>	<u>\$ 6,255,260</u>	<u>\$ 15,410,260</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 6: Long-Term Liabilities (Continued)

c. Supplemental Leave Allowances

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2004, the total accrued liability for this benefit amounted to \$43,923, 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.

In fiscal year 2004, the City allowed participating employees to cash out this benefit and to transfer such dollars into a newly offered voluntary employee funded retirement health fund. Several employees did so resulting in the decrease in this long-term liability balance compared to the prior year.

d. Compensated Absences

At June 30, 2004, the total City-wide accrued liability for compensated absences amounted to \$1,755,431, which is comprised of \$1,293,430 and \$462,001 of vested vacation and sick leave, respectively. \$1,558,944 of this compensated leave liability has been determined to be long-term in nature and related to general governmental services. Additionally, \$52,640 of proprietary fund type long-term leave of absences are 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, 2004, the long-term portion was \$1,856,533.

f. General Liability Claims

This is an estimation of the general liability claims incurred but not reported. At June 30, 2004, the long-term portion was \$108,656.

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.

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

Note 6: Long-Term Liabilities (Continued)

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2004:

Fiscal Year Ending June 30, 2004	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 60,330	\$ 154,628	\$ 214,958	\$ 29,670	\$ 76,075	\$ 105,745
2006	63,655	151,342	214,997	31,334	74,458	105,792
2007	67,025	147,853	214,878	32,975	72,742	105,717
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
2010-2014	432,310	635,068	1,067,378	212,690	312,444	525,134
2015-2019	586,467	492,431	1,078,898	288,533	242,268	530,801
2020-2024	790,893	295,883	1,086,776	389,107	145,570	534,677
2025-2029	606,587	54,133	660,720	298,424	26,632	325,056
Total	<u>\$ 2,751,370</u>	<u>\$ 2,215,787</u>	<u>\$ 4,967,157</u>	<u>\$ 1,353,630</u>	<u>\$ 1,090,134</u>	<u>\$ 2,443,764</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's 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 parking are encumbered as security for the COP.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 255,000	\$ 597,871	\$ 852,871
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
2010-2014	1,555,000	2,717,469	4,272,469
2015-2019	1,910,000	2,375,006	4,285,006
2020-2024	2,400,000	1,897,994	4,297,994
2025-2029	3,080,000	1,246,250	4,326,250
2030-2033	3,075,000	394,250	3,469,250
Total	<u>\$ 13,350,000</u>	<u>\$ 11,564,975</u>	<u>\$ 24,914,975</u>

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

Note 7: Classification Fund Balance and Enterprise Fund Net Assets

The City's governmental funds reserves and designations at June 30, 2004 are presented below:

	General Fund	Capital Improvement Fund	Police & Fire Construction Fund	Underground Construction Fund	Other Governmental Funds	Total Governmental Funds
Total Fund Equity	<u>\$ 20,667,534</u>	<u>\$ 9,186,515</u>	<u>\$ 11,956,441</u>	<u>\$ 1,479,976</u>	<u>\$ 6,007,476</u>	<u>\$ 49,297,942</u>
Reserved:						
Encumbrances	\$ 350,515	\$ -	\$ 165,882	\$ -	\$ 89,813	\$ 606,210
Prepays	22,727	-	12,500	-	-	35,227
Debt service	62,496	-	-	-	-	62,496
Continuing capital projects	-	999,748	-	1,479,976	2,894,839	5,374,563
Total Reserved	<u>435,738</u>	<u>999,748</u>	<u>178,382</u>	<u>1,479,976</u>	<u>2,984,652</u>	<u>6,078,496</u>
Unreserved	20,231,796	8,186,767	11,778,059	-	3,022,824	43,219,446
Designated:						
Financial policy	6,963,656	-	-	-	-	6,963,656
Economic uncertainty	2,000,000	-	-	-	-	2,000,000
Pension stabilization	2,024,545	-	-	-	-	2,024,545
Employee leave benefit	1,602,867	-	-	-	-	1,602,867
Police-fire safety facility	-	5,500,000	11,778,059	-	-	17,278,059
Strand walkway	-	2,564,612	-	-	-	2,564,612
Artesia Blvd.	-	100,000	-	-	-	100,000
Total Designated	<u>12,591,068</u>	<u>8,164,612</u>	<u>11,778,059</u>	<u>-</u>	<u>-</u>	<u>32,533,739</u>
Undesignated	<u>7,640,728</u>	<u>22,155</u>	<u>-</u>	<u>-</u>	<u>3,022,824</u>	<u>10,685,707</u>

The City's Enterprise Fund restrictions and City Council designations at June 30, 2004 are presented below:

	Water Fund	Storm Fund	Waste Water Fund	Refuse Fund	Parking Fund	Nonmajor Enterprise Fund	Total Enterprise Funds
Total Net Assets	<u>\$ 16,690,740</u>	<u>\$ 4,821,497</u>	<u>\$ 5,108,068</u>	<u>\$ 706,779</u>	<u>\$ 6,903,198</u>	<u>\$ 1,422,326</u>	<u>\$ 35,652,608</u>
Restricted:							
Debt service	\$ 227,096	\$ -	\$ 111,494	\$ -	\$ 3,584,340	\$ -	\$ 3,922,930
BID	-	-	-	-	396,198	-	396,198
Total Restricted	<u>227,096</u>	<u>-</u>	<u>111,494</u>	<u>-</u>	<u>3,980,538</u>	<u>-</u>	<u>4,319,128</u>
Investment in Net Capital Assets	<u>7,888,461</u>	<u>3,877,573</u>	<u>3,625,918</u>	<u>-</u>	<u>1,711,485</u>	<u>-</u>	<u>17,103,437</u>
Unrestricted	<u>8,575,183</u>	<u>943,924</u>	<u>1,370,656</u>	<u>706,779</u>	<u>1,211,175</u>	<u>1,422,326</u>	<u>14,230,043</u>
Designations:							
Continuing CIPs	3,177,757	791,020	1,246,552	-	19,288	-	5,234,617
Financial policy	2,064,000	98,000	303,000	-	84,000	-	2,549,000
Total Designated	<u>5,241,757</u>	<u>889,020</u>	<u>1,549,552</u>	<u>-</u>	<u>103,288</u>	<u>-</u>	<u>7,783,617</u>
After Designations	<u>3,333,426</u>	<u>54,904</u>	<u>(178,896)</u>	<u>706,779</u>	<u>1,107,887</u>	<u>1,422,326</u>	<u>6,446,426</u>

**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 2003-2004 was 15.679%, 12.495%, and zero 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 2003-2004, the City of Manhattan Beach's annual pension cost was \$1,092,147 for the Police, Fire, and Miscellaneous Plans combined, and was equal to the City's required and actual contributions. The City also contributed \$1,299,753 for the 2003-2004 fiscal year on behalf of the employees. The City's payroll for employees covered by the plans for the year ended June 30, 2004, was \$16,402,367. The total payroll for the year was \$2,0234,492. The required contributions for fiscal year 2003-2004 were determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: a) 8.25% investment rate of return (net of administrative expenses); b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members (from 3.75% to 11.59% for safety members); and

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

Note 8: Retirement Plans (Continued)

c) 2% maximum cost-of-living adjustment not to exceed the consumer price index. Both a) and b) include an inflation component of 3.5%. The actuarial value of the Safety and Miscellaneous 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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2002	\$ 481,079	95.18%	\$ (592,208)
6/30/2003	600,254	95.23%	(563,550)
6/30/2004	749,380	95.35%	(528,698)

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, 2004 was as follows:

	<u>Police</u>
Annual required contributions (ARC)	\$ 714,528
Interest on net pension obligation (NPO)	(46,493)
Amortization of net pension obligation	<u>81,345</u>
Annual pension cost	749,380
Actual contributions made in fiscal year	<u>714,528</u>
Increase (Decrease) in NPO	34,852
NPO at Beginning of Year	<u>(563,550)</u>
NPO at End of Year	<u><u>\$ (528,698)</u></u>

Schedules of Funding Progress for PERS Police Plan*

<u>Valuation Date</u>	<u>Entry Level Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2000	\$ 39,384,276	\$ 46,163,623	\$ (6,779,347)	117.2%	\$ 4,390,090	(154.42) %
6/30/2001	41,984,208	46,779,860	(4,792,823)	114.2%	4,568,938	(106.30) %
6/30/2002	45,740,848	43,425,575	2,315,273	94.9%	4,334,074	53.42 %

* 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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2002	\$ 124,294	89.52%	\$ (333,114)
6/30/2003	151,798	89.38%	(316,994)
6/30/2004	397,223	95.06%	(297,390)

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, 2004 was as follows:

	<u>Fire</u>
Annual required contributions (ARC)	\$ 377,619
Interest on net pension obligation (NPO)	(26,152)
Amortization of net pension obligation	<u>45,756</u>
Annual pension cost	397,223
Actual contributions made in fiscal year	<u>377,619</u>
Increase (Decrease) in NPO	19,604
NPO at Beginning of Year	<u>(316,994)</u>
NPO at End of Year	<u><u>\$ (297,390)</u></u>

Schedules of Funding Progress for PERS Fire Plan*

<u>Valuation Date</u>	<u>Entry Level Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2000	\$ 20,769,978	\$ 26,126,347	\$ (5,356,369)	125.8%	\$ 2,224,554	(240.78) %
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 %

* latest available data

Three-Year Trend Information for PERS Miscellaneous Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2002	\$ -	0%	\$ -
6/30/2003	-	0%	-
6/30/2004	-	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
6/30/2000	\$ 26,798,233	\$ 40,447,665	\$ (13,649,432)	150.9%	\$ 7,556,860	(180.62) %
6/30/2001	28,873,800	41,183,641	12,309,841	142.6%	7,750,542	(158.80) %
6/30/2002	31,063,455	38,260,387	7,196,932	123.2%	8,131,217	(88.51) %

* 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, 2004 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
6/30/1995	\$ 1,614,068	\$ 1,522,147	\$ (91,921)	\$ 4,087,727	(1.39) %
6/30/1996	564,788	205,418	(359,370)	N/A	N/A
6/30/1997	543,583	205,418	(338,165)	N/A	N/A
6/30/1998	244,741	220,145	(24,596)	N/A	N/A
6/30/1999	238,406	220,145	(18,261)	N/A	N/A
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

During the 1994-1995 fiscal year, the supplemental benefits for safety employees were transferred to PERS.

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/1995	\$ 44,965	100%
6/30/1996	N/A	N/A
6/30/1997	N/A	N/A
6/30/1998	N/A	N/A
6/30/1999	N/A	N/A
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

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, 2004 was as follows:

Retirees and beneficiaries receiving benefits:	
Management/Confidential	5
Miscellaneous	2
Fire	2
Police	<u>5</u>
Total	<u><u>14</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
6/30/1995	\$ 596,473	\$ 471,299	\$ (125,174)	N/A	N/A
6/30/1996	565,631	495,795	(69,836)	N/A	N/A
6/30/1997	520,280	495,795	(24,485)	N/A	N/A
6/30/1998	607,602	546,538	(61,064)	N/A	N/A
6/30/1999	596,229	546,538	(49,691)	N/A	N/A
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

**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>
6/30/1995	N/A	N/A
6/30/1996	N/A	N/A
6/30/1997	N/A	N/A
6/30/1998	N/A	N/A
6/30/1999	N/A	N/A
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

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 \$150 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, 2004 was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	24
Fire - Retirees	<u>1</u>
Total	<u><u>25</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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
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

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

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	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
Actuarial Assumptions:	
Investment rate of return	6.5%

4. 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.

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 \$1,203,279. The amount of employee contribution was \$45,123, and employer contribution was \$45,123.

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

Note 9: Post-Employment Health Insurance

In addition to the pension benefits described in Note 9, 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 2003-2004 for this benefit was \$4,900.

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 \$250,000 on each claim. Insurance coverage in excess of the self-insured amount is provided by a private insurance company up to a limit of \$20,000,000. Also, the City is self-insured for the first \$250,000 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 \$10,000,000.

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, 2004, the amount of these liabilities was \$4,066,829. The amount represents an estimate of \$2,101,640 for reported claims through June 30, 2004, and \$1,965,189 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, 2004, resulted from the following:

Year	Liability Beginning of Year	Current Year Claims and Changes in Estimates	Claims and Payments	Liability End of Year
2003	\$ 3,670,520	\$ 1,685,041	\$ (1,323,140)	\$ 4,032,421
2004	4,032,421	1,444,631	(1,410,224)	\$ 4,066,828

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.

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

Note 10: Risk Management (Continued)

The ICRMA has published its own financial report for the year ended June 30, 2004, 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, 2004, was 23.1%.

Summarized audited financial information for SBRPCA at June 30, 2002*, is presented below:

Balance Sheet

Assets	<u>\$ 12,224,871</u>
Liabilities to member cities (all current)	\$ 791,514
Bonds payable	9,540,000
Fund equity	<u>1,893,357</u>
Total Liabilities and Fund Equity	<u>\$ 12,224,871</u>

Revenues and Expenditures

Revenues	\$ 4,978,464
Expenditures	<u>(4,829,932)</u>
Excess of Expenditures Over Revenues	148,532
Fund equity - July 1, 2001	1,660,725
Contributed capital	<u>84,100</u>
Fund equity - June 30, 2002*	<u>\$ 1,893,357</u>

*Most current information available.

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

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

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

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, 2003*, is presented below:

Balance Sheet

Assets	<u>\$ 6,779,557</u>
Liabilities to member cities (all current)	\$ 3,397,407
Fund equity	2,280,521
General fixed assets	<u>1,101,629</u>
Total Liabilities and Fund Equity	<u>\$ 6,779,557</u>

Revenues and Expenditures

Revenues	\$ 3,328,816
Expenditures	<u>(5,597,071)</u>
Excess of Expenditures Over Revenues	(2,268,255)
Fund equity - June 30, 2002	<u>4,548,776</u>
Fund equity - June 30, 2002*	<u>\$ 2,280,521</u>

*Most current information available.

**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, 2004 was \$849,907.

As of June 30, 2004, the following balances of assets and liabilities were present:

	Market Value <u>401(a) Plan</u>
Total Assets	<u>\$ 849,907</u>
Liability to Plan Participants	<u>\$ 849,907</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, 2004 was \$351,705.

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, 2004 was \$392,472.

Note 14: Commitments and Contingencies

There are certain lawsuits pending against the City which 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, 2004. 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 contract was for an amount not-to-exceed \$1,420,592. As of June 30, 2004, the remaining balance on the contract was \$416,440.

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 contract was for an amount not-to-exceed \$2,475,234. As of June 30, 2004, the remaining balance on the contract was \$191,613.

**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 payments:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 148,544
2006	145,699
2007	147,636
2008	149,478
2009	145,836
2010-2014	585,388
2015-2019	521,931
2020-2024	532,016
2025-2029	529,613
2030-2031	<u>82,279</u>
Total	<u>\$ 2,988,420</u>

Note 16: Fund Balance Restatement

Beginning fund equity has been restated as follows:

Major enterprise fund:	
Water fund	
Prior year expenses understated	<u>\$ 133,846</u>

Note 18: Subsequent Event

Police and Fire Facility Certificates of Participation

On November 4, 2004, the City issued \$12,980,000 in Certificates of Participation to fund the construction of a new Police and Fire facility and public civic center plaza. The project consists of a two-story police and fire facility encompassing approximately 60,000 square feet adjacent to the existing City Hall and includes the construction of below grade level parking structure which will provide 350 new parking spaces. The balance of the below grade construction area will be used for jail operations, a firing range and fitness area. The project cost approximates \$41 million and has been fully funded through the use of the aforementioned bond proceeds and earmarked capital project reserves. These reserves are evident in Capital Project Funds at June 30, 2004 in the amount of \$17,446,440. Construction commenced in February 2004 and completion is anticipated for the end of calendar 2005.

Given that these bonds were issued in the period subsequent to the fiscal year of reporting, the related liability will be recorded in fiscal year 2004-2005.



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CITY OF MANHATTAN BEACH

JUNE 30, 2004

MAJOR FUND BUDGETARY COMPARISON SCHEDULES

Budgetary comparison statements are presented as part of the basic financial statement for the General Fund as provided for by GASB Statement No. 34. The budgetary comparison schedules for the remaining major funds are presented to aid in additional analysis and are not a required part of the basic financial statements.



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CITY OF MANHATTAN BEACH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue Funds		
	Street Lighting and Landscape	Gas Tax	Asset Forfeiture
Assets:			
Pooled cash and investments	\$ 186,448	\$ 2,438,434	\$ 767,709
Receivables:			
Accounts	8,326	-	-
Due from other governments	-	65,496	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 194,774</u>	<u>\$ 2,503,930</u>	<u>\$ 767,709</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 39,146	\$ 199,432	\$ 309
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>39,146</u>	<u>199,432</u>	<u>309</u>
Fund Balances:			
Reserved:			
Reserved for encumbrances	-	-	-
Reserved for continuing projects	-	1,099,763	-
Unreserved:			
Undesignated	155,628	1,204,735	767,400
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>155,628</u>	<u>2,304,498</u>	<u>767,400</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 194,774</u>	<u>\$ 2,503,930</u>	<u>\$ 767,709</u>

Special Revenue Funds				
Public Safety Grants	Prop A	Prop C	AB 2766	Governmental Funds
\$ 187,306	\$ 592,332	\$ 2,047,276	\$ 54,047	\$ 6,273,552
-	-	-	-	8,326
-	-	-	11,435	76,931
\$ 187,306	\$ 592,332	\$ 2,047,276	\$ 65,482	\$ 6,358,809
\$ -	\$ 16,694	\$ 95,752	\$ -	\$ 351,333
-	16,694	95,752	-	351,333
89,813	-	-	-	89,813
-	-	1,795,076	-	2,894,839
97,493	575,638	156,448	65,482	3,022,824
187,306	575,638	1,951,524	65,482	6,007,476
\$ 187,306	\$ 592,332	\$ 2,047,276	\$ 65,482	\$ 6,358,809

CITY OF MANHATTAN BEACH

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	Special Revenue Funds		
	Street Lighting and Landscape	Gas Tax	Asset Forfeiture
Revenues:			
Taxes and assessments	\$ 376,734	\$ -	\$ -
Intergovernmental	-	722,228	11,912
Charges for services	-	-	-
Use of money and property	5,466	28,331	9,042
Miscellaneous	27,012	61,613	-
	409,212	812,172	20,954
Expenditures:			
Public safety	-	-	37,277
Culture and recreation	-	-	-
Public works	437,317	780,838	-
	437,317	780,838	37,277
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,105)	31,334	(16,323)
Other Financing Sources (Uses):			
Transfers out	(369,651)	-	-
	(369,651)	-	-
Net Change in Fund Balances	(397,756)	31,334	(16,323)
Fund Balances, Beginning of Year	553,384	2,273,164	783,723
Fund Balances, End of Year	\$ 155,628	\$ 2,304,498	\$ 767,400

Special Revenue Funds

Public Safety Grants	Prop A	Prop C	AB 2766	Total Governmental Funds
\$ -	\$ 492,416	\$ 409,979	\$ -	\$ 1,279,129
112,118	-	785,451	42,513	1,674,222
-	5,342	-	-	5,342
1,507	5,963	18,470	1,470	70,249
-	-	-	-	88,625
113,625	503,721	1,213,900	43,983	3,117,567
11,799	-	-	-	49,076
-	356,418	-	-	356,418
-	57,438	609,551	134,329	2,019,473
11,799	413,856	609,551	134,329	2,424,967
101,826	89,865	604,349	(90,346)	692,600
-	-	-	-	(369,651)
-	-	-	-	(369,651)
101,826	89,865	604,349	(90,346)	322,949
85,480	485,773	1,347,175	155,828	5,684,527
\$ 187,306	\$ 575,638	\$ 1,951,524	\$ 65,482	\$ 6,007,476

CITY OF MANHATTAN BEACH

JUNE 30, 2004

NONMAJOR FUND BUDGETARY COMPARISON SCHEDULES

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 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. Assessments from Zone 10 of the street lighting district

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 towards 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 is 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.

Air Quality 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.

**BUDGETARY COMPARISON SCHEDULE
STREET LIGHTING AND LANDSCAPE
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 386,700	\$ 386,700	\$ 376,734	\$ (9,966)
Use of money and property	11,250	11,250	5,466	(5,784)
Miscellaneous	26,962	26,962	27,012	50
Total Resources	424,912	424,912	409,212	(15,700)
Charges to Appropriation (Outflow):				
Public works	448,618	448,618	437,317	11,301
Total Charges to Appropriations	448,618	448,618	437,317	11,301
Other Financing Sources:				
Transfers out	(369,651)	(369,651)	(369,651)	-
Total Other Financing Sources	(369,651)	(369,651)	(369,651)	-
Net Change in Fund Balances	(393,357)	(393,357)	(397,756)	(4,399)
Fund Balance, Beginning of Year	553,384	553,384	553,384	-
Fund Balance, End of Year	\$ 160,027	\$ 160,027	\$ 155,628	\$ (4,399)

**BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 657,395	\$ 711,470	\$ 722,228	\$ 10,758
Use of money and property	25,846	25,846	28,331	2,485
Miscellaneous	-	-	61,613	61,613
Total Resources	683,241	737,316	812,172	74,856
Charges to Appropriation (Outflow):				
Public works	631,462	2,019,309	780,838	1,238,471
Total Charges to Appropriations	631,462	2,019,309	780,838	1,238,471
Net Change in Fund Balance	51,779	(1,281,993)	31,334	1,313,327
Fund Balance, Beginning of Year	2,273,164	2,273,164	2,273,164	-
Fund Balance, End of Year	\$ 2,324,943	\$ 991,171	\$ 2,304,498	\$ 1,313,327

**BUDGETARY COMPARISON SCHEDULES
ASSET FORFEITURE
YEAR ENDED JUNE 30, 2004**

	<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	\$ -	\$ -	\$ 11,912	\$ 11,912
Use of money and property	20,824	20,824	9,042	(11,782)
Total Resources	20,824	20,824	20,954	130
Charges to Appropriation (Outflow):				
Public safety	327,623	355,797	37,277	318,520
Total Charges to Appropriations	327,623	355,797	37,277	318,520
Net Change in Fund Balances	(306,799)	(334,973)	(16,323)	318,650
Fund Balance, Beginning of Year	783,723	783,723	783,723	-
Fund Balance, End of Year	\$ 476,924	\$ 448,750	\$ 767,400	\$ 318,650

**BUDGETARY COMPARISON SCHEDULE
PUBLIC SAFETY GRANTS
YEAR ENDED JUNE 30, 2004**

	<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	\$ -	\$ 112,118	\$ 112,118	\$ -
Use of money and property	-	-	1,507	1,507
Total Resources	-	112,118	113,625	1,507
Charges to Appropriation (Outflow):				
Public safety	-	99,593	11,799	87,794
Total Charges to Appropriations	-	99,593	11,799	87,794
Net Change in Fund Balance	-	12,525	101,826	89,301
Fund Balance, Beginning of Year	85,480	85,480	85,480	-
Fund Balance, End of Year	\$ 85,480	\$ 98,005	\$ 187,306	\$ 89,301

**BUDGETARY COMPARISON SCHEDULE
PROPOSITION A
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 463,500	\$ 463,500	\$ 492,416	\$ 28,916
Charges for services	7,000	7,000	5,342	(1,658)
Use of money and property	12,629	12,629	5,963	(6,666)
Total Resources	483,129	483,129	503,721	20,592
Charges to Appropriation (Outflow):				
Culture and recreation	747,222	757,222	356,418	400,804
Public works	52,000	81,378	57,438	23,940
Total Charges to Appropriations	799,222	838,600	413,856	424,744
Net Change in Fund Balance	(316,093)	(355,471)	89,865	445,336
Fund Balance, Beginning of Year	485,773	485,773	485,773	-
Fund Balance, End of Year	\$ 169,680	\$ 130,302	\$ 575,638	\$ 445,336

**BUDGETARY COMPARISON SCHEDULE
PROPOSITION C
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 381,800	\$ 381,800	\$ 409,979	\$ 28,179
Intergovernmental	-	785,451	785,451	-
Use of money and property	39,826	39,826	18,470	(21,356)
Total Resources	421,626	1,207,077	1,213,900	6,823
Charges to Appropriation (Outflow):				
Public works	443,719	2,434,298	609,551	1,824,747
Total Charges to Appropriations	443,719	2,434,298	609,551	1,824,747
Net Change in Fund Balance	(22,093)	(1,227,221)	604,349	1,831,570
Fund Balance, Beginning of Year	1,347,175	1,347,175	1,347,175	-
Fund Balance, End of Year	\$ 1,325,082	\$ 119,954	\$ 1,951,524	\$ 1,831,570

**BUDGETARY COMPARISON SCHEDULE
AB 2766
YEAR ENDED JUNE 30, 2004**

	<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	\$ 40,000	\$ 40,000	\$ 42,513	\$ 2,513
Use of money and property	4,674	4,674	1,470	(3,204)
Total Resources	44,674	44,674	43,983	(691)
Charges to Appropriation (Outflow):				
Public works	2,000	132,481	134,329	(1,848)
Total Charges to Appropriations	2,000	132,481	134,329	(1,848)
Net Change in Fund Balance	42,674	(87,807)	(90,346)	(2,539)
Fund Balance, Beginning of Year	155,828	155,828	155,828	-
Fund Balance, End of Year	\$ 198,502	\$ 68,021	\$ 65,482	\$ (2,539)

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 299,000	\$ 299,000	\$ 324,244	\$ 25,244
Licenses and permits	58,139	58,139	50,876	(7,263)
Intergovernmental	-	114,081	114,081	-
Charges for services	510,000	510,000	550,026	40,026
Fines and forfeitures	111,000	111,000	124,498	13,498
Total Resources	978,139	1,092,220	1,163,725	71,505
Charges to Appropriation (Outflow):				
General government	-	111,919	90,778	21,141
Public safety	-	6,631	2,124	4,507
Culture and recreation	10,000	302,070	229,057	73,013
Public works	1,400,000	1,390,015	457,301	932,714
Total Charges to Appropriations	1,410,000	1,810,635	779,260	1,031,375
Other Financing Sources:				
Transfers in	1,344,651	1,344,651	1,344,651	-
Transfers out	(17,500,000)	(17,500,000)	(17,500,000)	-
Total Other Financing Sources	(16,155,349)	(16,155,349)	(16,155,349)	
Net Change in Fund Balance	(16,587,210)	(16,873,764)	(15,770,884)	1,102,880
Fund Balance, Beginning of Year	24,957,399	24,957,399	24,957,399	-
Fund Balance, End of Year	\$ 8,370,189	\$ 8,083,635	\$ 9,186,515	\$ 1,102,880

**BUDGETARY COMPARISON SCHEDULE
SAFETY AND CIVIC CENTER CONSTRUCTION
YEAR ENDED JUNE 30, 2004**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Use of money and property	\$ 52,500	\$ 52,500	\$ -	\$ (52,500)
Total Resources	52,500	52,500	-	(52,500)
Charges to Appropriation (Outflow):				
Public safety	-	-	5,543,559	(5,543,559)
Public works	15,400,000	15,400,000	-	15,400,000
Total Charges to Appropriations	15,400,000	15,400,000	5,543,559	9,856,441
Other Financing Sources:				
Transfers in	17,500,000	17,500,000	17,500,000	-
Total Other Financing Sources	17,500,000	17,500,000	17,500,000	-
Net Change in Fund Balance	2,152,500	2,152,500	11,956,441	9,803,941
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ 2,152,500	\$ 2,152,500	\$ 11,956,441	\$ 9,803,941

CITY OF MANHATTAN BEACH

JUNE 30, 2004

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, 2004**

	County Parking Lots	State Pier and Parking Lot	Totals
Assets:			
Current:			
Cash and investments	\$ 332,035	\$ 1,246,285	\$ 1,578,320
Total Assets	\$ 332,035	\$ 1,246,285	\$ 1,578,320
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 138,464	\$ 16,982	\$ 155,446
Deposits payable	548	-	548
Total Liabilities	139,012	16,982	155,994
Net Assets:			
Unrestricted	193,023	1,229,303	1,422,326
Total Net Assets	193,023	1,229,303	1,422,326
Total Liabilities and Net Assets	\$ 332,035	\$ 1,246,285	\$ 1,578,320

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	County Parking Lots	State Pier and Parking Lot	Totals
Operating Revenues:			
Sales and service charges	\$ 424,957	\$ 324,891	\$ 749,848
Total Operating Revenues	424,957	324,891	749,848
Operating Expenses:			
Salaries and wages	9,027	9,435	18,462
Employee benefits	1,049	1,092	2,141
Contract and professional services	23,555	87,149	110,704
Materials and services	10,512	23,735	34,247
Utilities	2,870	27,931	30,801
Administrative service charges	13,842	13,842	27,684
Leases and rents	233,727	-	233,727
Total Operating Expenses	294,582	163,184	457,766
Operating Income (Loss)	130,375	161,707	292,082
Nonoperating Revenues (Expenses):			
Interest revenue	-	10,201	10,201
Total Nonoperating Revenues (Expenses)	-	10,201	10,201
Income (Loss) Before Transfers	130,375	171,908	302,283
Transfers out	(75,000)	-	(75,000)
Changes in Net Assets	55,375	171,908	227,283
Net Assets:			
Beginning of Fiscal Year	137,648	1,057,395	1,195,043
End of Fiscal Year	\$ 193,023	\$ 1,229,303	\$ 1,422,326

**STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	<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	\$ 424,957	\$ 724,891	\$ 1,149,848
Cash paid to supplies for good and services	(248,116)	(140,416)	(388,532)
Cash paid to employees for services	(10,076)	(10,527)	(20,603)
Cash paid for interfund services used	(13,842)	(11,814)	(25,656)
Net Cash Provided (Used) by Operating Activities	<u>152,923</u>	<u>562,134</u>	<u>715,057</u>
Cash Flows from Noncapital Financing Activities:			
Cash transfer to other funds	(75,000)	-	(75,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(75,000)</u>	<u>-</u>	<u>(75,000)</u>
Cash Flows from Investing Activities:			
Interest received	-	10,201	10,201
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>10,201</u>	<u>10,201</u>
Net Increase (Decrease) in Cash and Cash Equivalents	77,923	572,335	650,258
Cash and Cash Equivalents at Beginning of Year	254,112	673,950	928,062
Cash and Cash Equivalents at End of Year	<u>\$ 332,035</u>	<u>\$ 1,246,285</u>	<u>\$ 1,578,320</u>
Reconciliation of Operating Income to Net Cash			
Operating income (loss)	\$ 130,375	\$ 161,707	\$ 292,082
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
(Increase) decrease in accounts receivable	-	400,000	400,000
Increase (decrease) in accounts payable	22,548	427	22,975
Total Adjustments	<u>22,548</u>	<u>400,427</u>	<u>422,975</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 152,923</u>	<u>\$ 562,134</u>	<u>\$ 715,057</u>

CITY OF MANHATTAN BEACH

JUNE 30, 2004

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, 2004**

	<u>Insurance Reserve</u>	<u>Information Systems</u>	<u>Fleet Management</u>	<u>Building Maintenance and Operations</u>	<u>Total</u>
Assets:					
Current:					
Cash and investments	\$ 4,342,883	\$ 554,435	\$ 1,503,754	\$ 67,407	\$ 6,468,479
Due from other governments	2,544	-	-	-	2,544
Inventories	-	-	-	92,369	92,369
Total Current Assets	4,345,427	554,435	1,503,754	159,776	6,563,392
Noncurrent:					
Fixed assets-net of accumulated depreciation	-	-	1,955,587	-	1,955,587
Total Assets	\$ 4,345,427	\$ 554,435	\$ 3,459,341	\$ 159,776	\$ 8,518,979
Liabilities and Fund Equity:					
Liabilities:					
Current:					
Accounts payable	\$ 3,514	\$ 2,600	\$ 21,886	\$ 52,590	\$ 80,590
Workers' compensation claims	1,961,722	-	-	-	1,961,722
General liability claims	139,918	-	-	-	139,918
Total Current Liabilities	2,105,154	2,600	21,886	52,590	2,182,230
Noncurrent:					
Workers' compensation claims	1,856,532	-	-	-	1,856,532
General liability claims	108,656	-	-	-	108,656
Total Noncurrent Liabilities	1,965,188	-	-	-	1,965,188
Total Liabilities	4,070,342	2,600	21,886	52,590	4,147,418
Net Assets:					
Invested in capital assets, net of related debt	-	-	1,955,587	-	1,955,587
Unrestricted	275,085	551,835	1,481,868	107,186	2,415,974
Total Net Assets	275,085	551,835	3,437,455	107,186	4,371,561
Total Liabilities and Net Assets	\$ 4,345,427	\$ 554,435	\$ 3,459,341	\$ 159,776	\$ 8,518,979

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2004**

	<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	\$ 2,258,460	\$ 711,919	\$ 1,340,783	\$ 863,739	\$ 5,174,901
Miscellaneous	98,284	-	116,296	-	214,580
Total Operating Revenues	2,356,744	711,919	1,457,079	863,739	5,389,481
Operating Expenses:					
Salaries and wages	159,044	290,611	210,600	164,493	824,748
Employee benefits	28,792	36,653	121,800	24,835	212,080
Contract and professional services	14,946	81,799	57,666	204,028	358,439
Material and services	2,191,784	616,615	412,859	334,142	3,555,400
Utilities	9,777	3,696	-	116,800	130,273
Administrative service charges	46,071	-	43,836	21,207	111,114
Depreciation	-	-	390,367	-	390,367
Total Operating Expenses	2,450,414	1,029,374	1,237,128	865,505	5,582,421
Operating Income (Loss)	(93,670)	(317,455)	219,951	(1,766)	(192,940)
Change in Net Assets	(93,670)	(317,455)	219,951	(1,766)	(192,940)
Net Assets:					
Beginning of Fiscal Year	368,755	869,290	3,217,504	108,952	4,564,501
End of Fiscal Year	\$ 275,085	\$ 551,835	\$ 3,437,455	\$ 107,186	\$ 4,371,561



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CITY OF MANHATTAN BEACH
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2004

	<u>Insurance Reserve</u>	<u>Information Systems</u>
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 163,957	\$ 767
Cash received from interfund service provided	2,258,460	711,920
Cash payments to supplies for good and services	(2,078,694)	(737,258)
Cash payments to employees for services	(187,836)	(327,264)
Cash payments for interfund services used	<u>(218,053)</u>	<u>(20,971)</u>
Net Cash Provided (Used) by Operating Activities	<u>(62,166)</u>	<u>(372,806)</u>
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	(62,166)	(372,806)
Cash and Cash Equivalents at Beginning of Year	<u>4,405,049</u>	<u>927,241</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,342,883</u>	<u>\$ 554,435</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ (93,670)	\$ (317,455)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	-	-
(Increase) decrease in accounts receivable	673	-
(Increase) decrease in due from other governments	(2,544)	-
(Increase) decrease in inventories	-	-
Increase (decrease) in accounts payable	(79)	(55,351)
Increase (decrease) in deposits	(954)	-
Increase (decrease) in accrued liabilities	-	-
Increase (decrease) in claims payable	<u>34,408</u>	<u>-</u>
Total Adjustments	<u>31,504</u>	<u>(55,351)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (62,166)</u>	<u>\$ (372,806)</u>

Schedule 10

<u>Fleet Management</u>	<u>Building Maintenance</u>	<u>Totals</u>
\$ 16,480	\$ 493	\$ 181,697
1,441,334	982,028	5,393,742
(432,718)	(721,102)	(3,969,772)
(252,300)	(189,328)	(956,728)
(156,961)	(59,900)	(455,885)
615,835	12,191	193,054
(328,928)	-	(328,928)
(328,928)	-	(328,928)
286,907	12,191	(135,874)
1,216,847	55,216	6,604,353
\$ 1,503,754	\$ 67,407	\$ 6,468,479
\$ 219,951	\$ (1,766)	\$ (192,940)
390,367	-	390,367
22,145	-	22,818
-	-	(2,544)
-	(4,061)	(4,061)
(15,508)	18,018	(52,920)
-	-	(954)
(1,120)	-	(1,120)
-	-	34,408
395,884	13,957	385,994
\$ 615,835	\$ 12,191	\$ 193,054

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Assets:				
Cash and investments	\$ 1,322,795	\$ 700,540	\$ 268,369	\$ 1,754,966
Total Assets	<u>\$ 1,322,795</u>	<u>\$ 700,540</u>	<u>\$ 268,369</u>	<u>\$ 1,754,966</u>
Liabilities:				
Accounts payable	\$ -	\$ 8,861	\$ 3,600	\$ 5,261
Due to other agencies	10,000	-	-	10,000
401(a) plan deposits	610,089	239,818	-	849,907
Utility development deposit	619,874	-	-	619,874
Art development fees	-	207,428	-	207,428
Other deposits	82,832	244,433	264,769	62,496
Total Liabilities	<u>\$ 1,322,795</u>	<u>\$ 700,540</u>	<u>\$ 268,369</u>	<u>\$ 1,754,966</u>

TABLE 1

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

**Last Ten Fiscal Years
Unaudited**

<u>Year Ended June 30,</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works and Services</u>	<u>Parks and Recreation</u>	<u>Capital Outlay</u>	<u>Total</u>
1995	5,059,743	11,840,969	3,323,345	1,994,891	2,309,931	24,528,879
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

Source: City of Manhattan Beach Finance Department

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

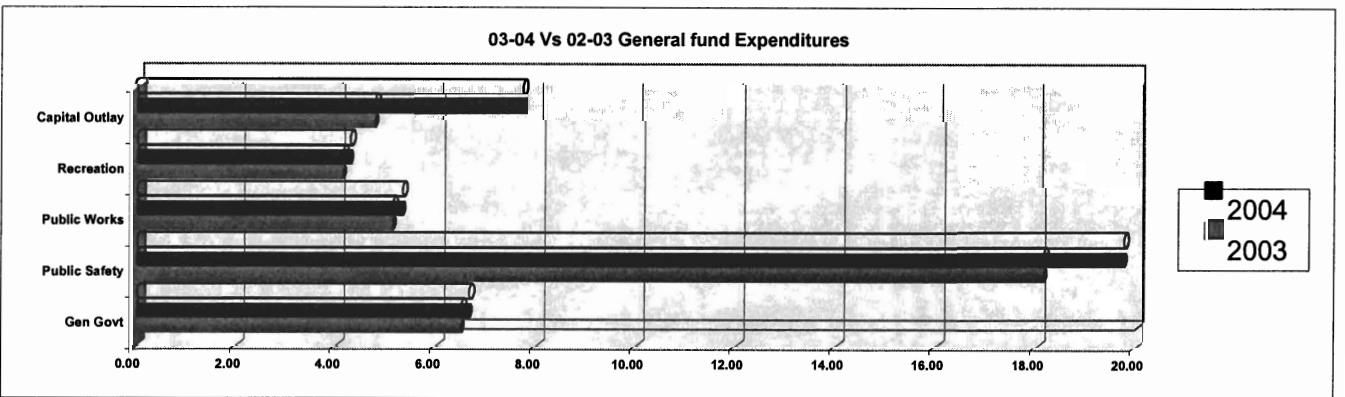
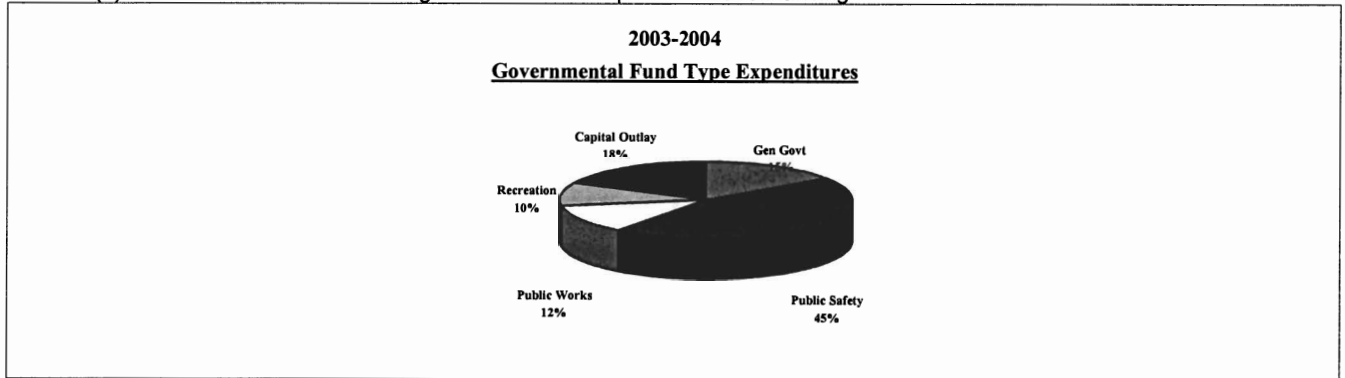


TABLE 2

**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>
1995	5,670,962	9,037,117	1,200,179	934,414	2,655,113
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

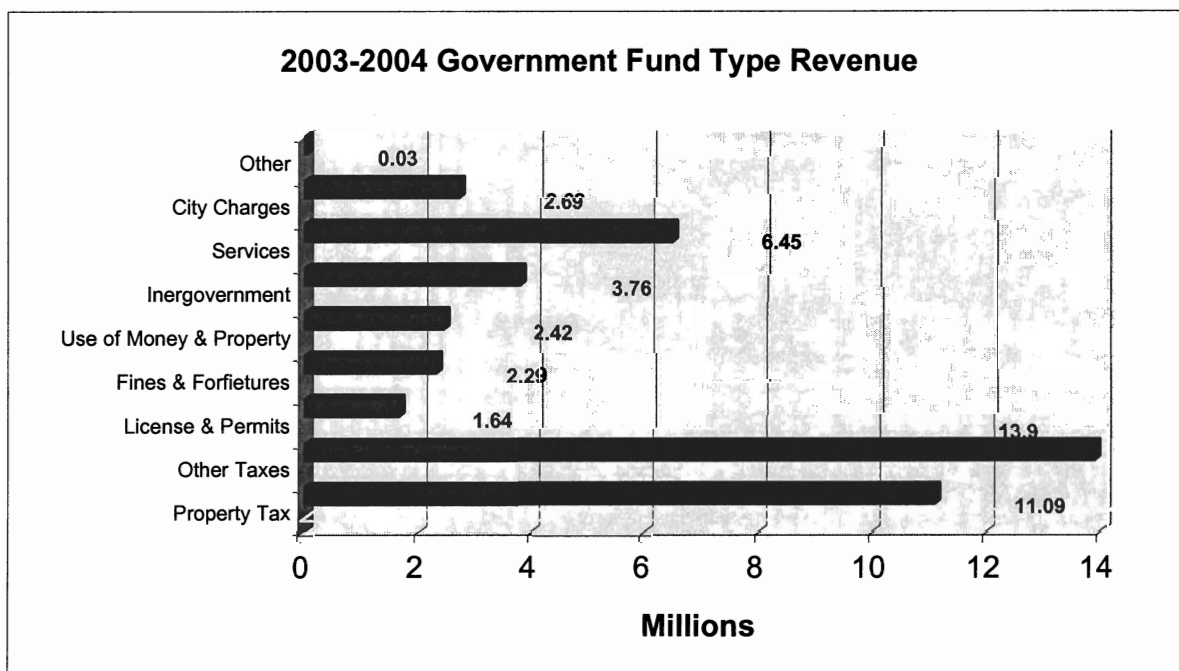


TABLE 2

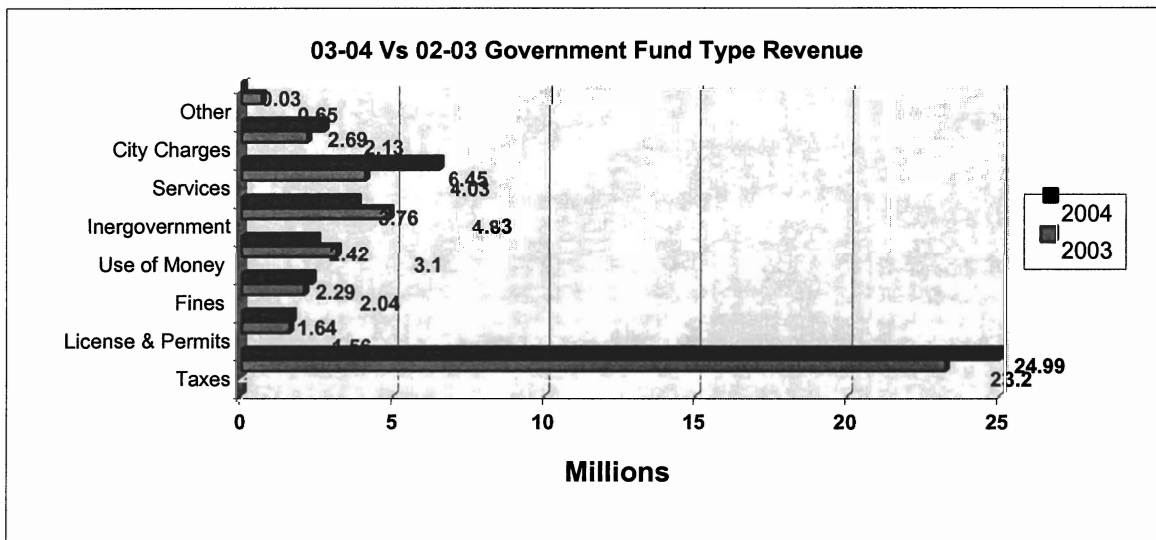
**CITY OF MANHATTAN BEACH
GOVERNMENTAL FUND TYPE REVENUES**

**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>
2,869,617	1,110,854	253,552	161,212	23,893,020
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 (2)	44,272,582

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 Assesment District collections 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>
1995	5,262,497	567,441	1,202,603
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	7,262,693	929,251	1,858,919

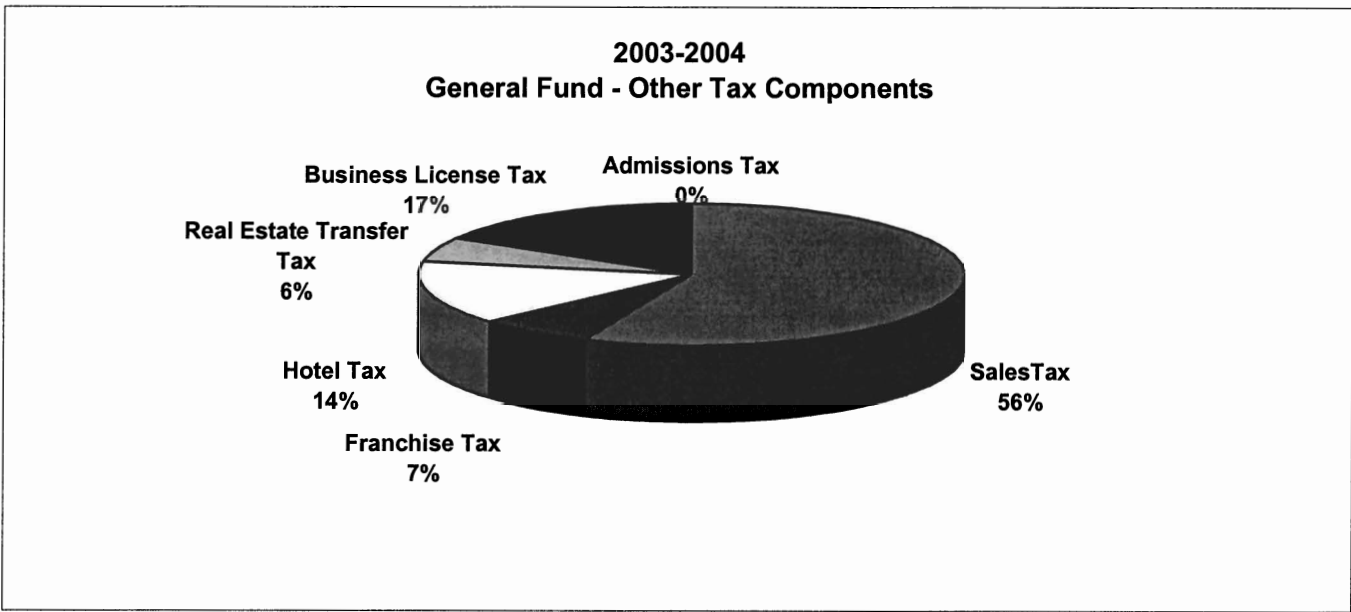


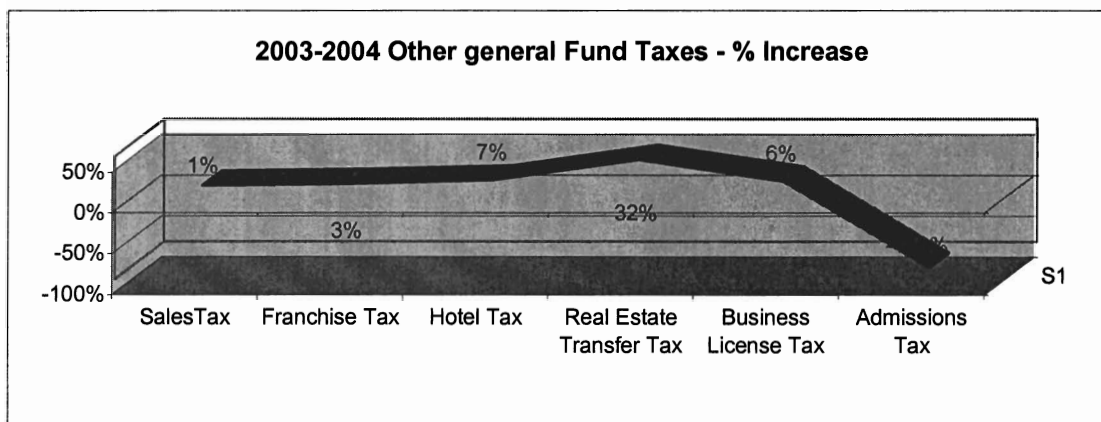
TABLE 3

CITY OF MANHATTAN BEACH

GENERAL FUND TAX COLLECTIONS OTHER THAN PROPERTY TAX

**Last Ten Fiscal Years
Unaudited**

<u>Cigarette</u>	<u>Real Estate Transfer</u>	<u>Business License</u>	<u>Admissions</u>	<u>Total</u>
N.A.	166,711	1,275,966	55,583	8,530,801
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)	12,907,093



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	
1995	4,039,319,914	182,033,925	4,221,353,839	2.91
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

Source: Auditor-Controller, County of Los Angeles, California.

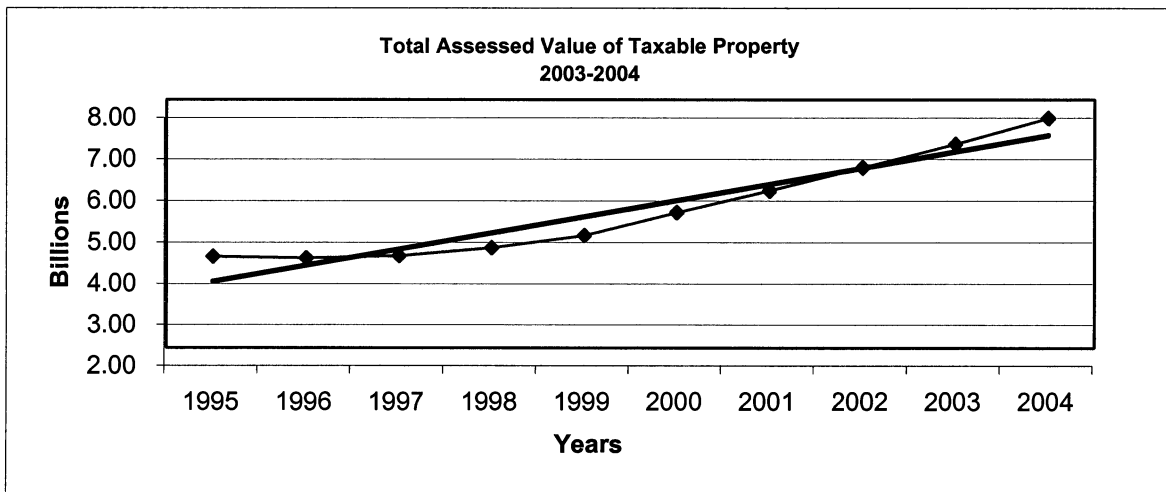


TABLE 5

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
1995	0.0020	-	0.0089	0.0060	1.0000	1.0169
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

Source: Los Angeles County Auditor-Controller.

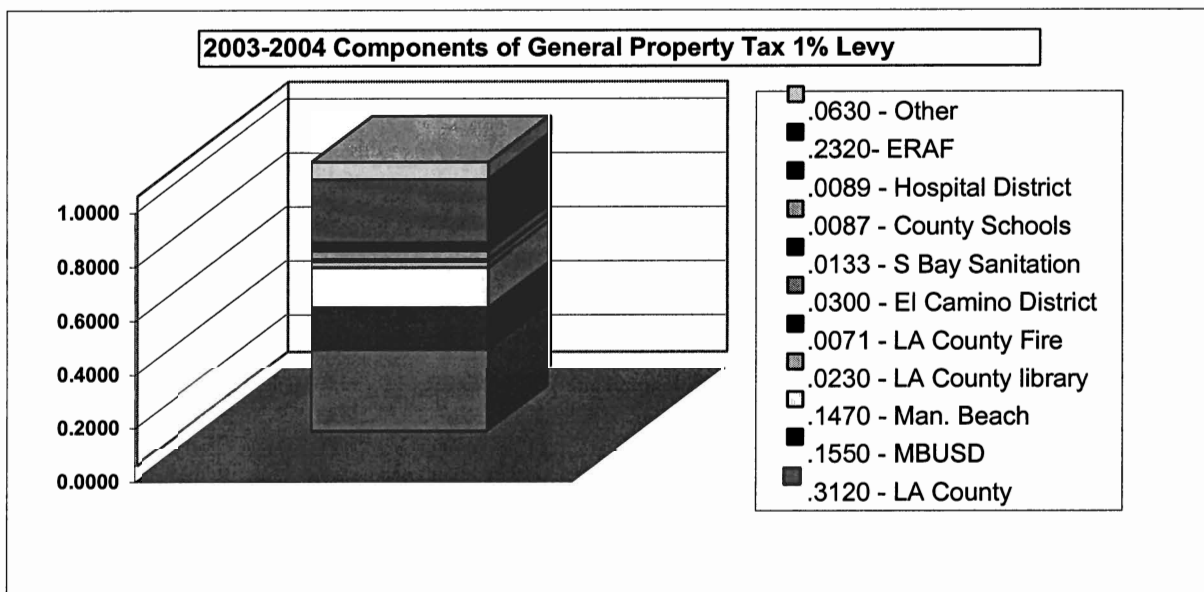


TABLE 6

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

Last Ten Fiscal Years
Unaudited

<u>Year Ended June 30,</u>	<u>Total Tax Levy</u>	<u>Tax Collections</u>	<u>% of Levy Collected</u>	<u>Prior Year Deliquent Tax Collections*</u>
1995	5,852,308	5,852,308	90.7	N/A
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

Source: City of Manhattan Beach Finance Department

*includes interest
and penalties

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
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%

TABLE 7

CITY OF MANHATTAN BEACH
PRINCIPAL PROPERTY TAXPAYERS

June 30, 2004
Unaudited

<u>Taxpayer</u>	<u>Business Category</u>	<u>Assessed Value</u>	<u>Percent of Assessed Value</u>
Northrop Grumman	Aerospace	204,799,125	2.71%
Shamrock MBS LLC	Film Studios	135,167,435	1.79%
Rreef America Reit Corporation	Office Building	104,880,658	1.39%
HSOV Manhattan Towers	Office Building	63,842,000	0.85%
Parstem Realty Company Inc.	Industrial Buildings	57,979,543	0.77%
TRW Inc.	Aerospace Manufacturer	53,985,197	0.71%
Host Marriott Corporation	Hotel	35,280,000	0.47%
Sanko Nakayama International	Hotel	28,754,854	0.38%
St Paul Properties Inc.	Shopping Center	26,526,972	0.35%
Hughes Aircraft Employees CU	Office Building	22,321,259	0.30%
Principal Taxpayer Totals		733,537,043	9.71%
All Other Taxpayers		<u>6,820,897,963</u>	<u>90.29%</u>
City Total		<u>7,554,435,006</u>	<u>100.00%</u>

Source: HDL

TABLE 8

CITY OF MANHATTAN BEACH
DIRECT AND OVERLAPPING DEBT

June 30, 2004
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	<u>53,407,717</u>	100.000%	<u>53,407,717</u>
TOTAL DIRECT DEBT	\$53,407,717		\$53,407,717
GROSS OVERLAPPING DEBT:			
Los Angeles County Detention Facilities	\$23,470,000	1.2079%	\$283,492
Los Angeles County Flood Control District	5,600,000	1.2253%	\$68,614
Flood Control Ref Bonds	555,000	1.2252%	\$6,800
Metropolitan Water District	447,475,000		
West Basin Area 1111		1.1525%	5,157,275
El Caminio Com Col Dis 2002 Ser 2003ADS	63,700,000	14.3767%	9,157,977
TOTAL GROSS OVERLAPPING DEBT	\$540,800,000		\$14,674,158
TOTAL DIRECT AND OVERLAPPING DEBT	\$594,207,717		\$68,081,875

Sources: HDL, Coren & Cone

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
1995	33,034	4,221,353,839	158,300,769	-	158,300,769	-	-
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	35,475	6,365,174,958	238,694,061	-	238,694,061	-	-
2003	36,300	6,923,341,436	259,625,304	-	259,625,304	-	-
2004	36,600	7,554,435,006	283,291,313	-	283,291,313	-	-

Source: County of Los Angeles, County Assessor/Calif Dept of Finance



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TABLE 10

CITY OF MANHATTAN BEACH

DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2004
Unaudited

Marine Sports Field Capital Lease Refinancing

Fiscal Year	Principal	Interest	Total
2005	185,000	366,553	551,553
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	9,155,000	6,255,261	15,410,261

TABLE 10

CITY OF MANHATTAN BEACH
DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2004
Unaudited

Metlox Parking Facility COPs, Series 2002

Fiscal Year	Principal	Interest	Total
2005	255,000	597,871	852,871
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	13,350,000	11,564,976	24,914,976

CITY OF MANHATTAN BEACH
DEBT SERVICE REQUIREMENTS TO MATURITY

June 30, 2004
Unaudited

Water & Wastewater Improvement Projects

Fiscal Year	Principal	Interest	Total
2005	90,000	230,703	320,703
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	4,105,000	3,305,921	7,410,921

TABLE 11

CITY OF MANHATTAN BEACH
MISCELLANEOUS STATISTICAL DATA

June 30, 2004
Unaudited

<u>Date of Incorporation</u>	December 12, 1912	<u>Parks and Recreation</u>	
		Acres of recreational beach area	40
<u>Form of Government</u>	General Law	Acres of developed major parks	52
	Council/Manager	Acres Manhattan Beach Parkway	22
		Acres Golf Course	20
<u>Population</u>	33,852	Community Centers	3
<u>Area in Square Miles</u>	3.87		
<u>Streets and Alleys</u>		<u>Business Licenses</u>	
Miles of paved streets	120	Services	1,740
Miles of paved alleys	12	Contractors & Subcontractors	1,210
Street lights	2,537	Home occupancy sales and services	621
<u>Sewers</u>		Retail	412
Miles of sewers	110	Professionals	408
Miles of storm drains	18	Apartment houses	331
<u>Fire protection</u>		Commercial Property rental	171
Stations	2	Miscellaneous	185
Sworn positions	30		<u>5,078</u>
<u>Police protection</u>		<u>Authorized positions</u>	
Station	1	Classified:	
Sworn positions	61	Elected Officials	6
<u>Education</u>		Full-time service	263
Public Elementary Schools	5	Part-time service (FTE)	50
Private Elementary Schools	5	Exempt service	56
Public Secondary Schools	2	Total positions	<u>375</u>

Sources: City of Manhattan Beach Finance

CITY OF MANHATTAN BEACH

PARKING METER REVENUES

Last Ten Fiscal Years
Unaudited

Year Ended June 30,	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Lot 6	Lot 7
1995	13,182	22,688	60,691	29,748	10,096	16,318	3,074
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

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 replace with meters February, 2002

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

TABLE 12

CITY OF MANHATTAN BEACH

PARKING METER REVENUES

Last Ten Fiscal Years

Lot M	Pier Lot Meters	Pier Lot Dispensers	26th Street Lot	EI Porto Lot	Streets	Total
—	237,694	—	46,344	170,205	328,143	938,183
—	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	65,327	308,455	817,506	1,868,921
37,202	320,817	0	71,856	345,149	835,430	1,974,856

CITY OF MANHATTAN BEACH
SCHEDULE OF INSURANCE IN FORCE

June 30, 2004
(Unaudited)

<u>TYPE OF COVERAGE</u>	<u>POLICY NUMBER</u>	<u>FROM</u>
Liability		
Self-Insured	-	07/01/03
Excess Liability		
Independent Cities Risk Management ICRMA (Pool)	ICAPL 1014	07/01/03
Insurance Co. of State of PA	4703-4739	07/01/03
Lexington	6500053	07/01/03
Building & Property		
Lexington-Primary	8752300 (\$25Mil)	07/01/03
Other carriers	(\$135,000 Mil)	
Workers' Comp.		
Self-Insured	-	07/01/03
Excess Workers' Comp.		
ICRMA (Pool)	ICRMA2003-1WC	04/01/03
California State Association of Counties (CSAC Excess Insurance Authority)	063003-A	07/01/03
Public Officials, Faithful Performance & Fidelity Bonds		
Hartford	72BPEAG8698	12/12/03
Trip Insurance		
Hartford (Adults and Seniors)	57ETS501166	12/26/03
Hartford (Youths)	57ETS501167	12/26/03

Source: City of Manhattan Beach Human Resources Department

CITY OF MANHATTAN BEACH
SCHEDULE OF INSURANCE IN FORCE

June 30, 2004
(Unaudited)

<u>TO</u>	<u>LIMITS OF COVERAGE</u>	<u>ANNUAL PREMIUM</u>
07/01/04	\$500,000 per occurrence	-
07/01/04	\$2,000,000 excess of \$500,000	
07/01/04	\$8,000,000 excess of \$2,000,000	259,285
07/01/04	\$10,000,000 excess of \$8,000,000	
07/01/04	\$160,000,000 shared proportionally - earthquake and flood	190,244
07/01/04	\$750,000 per occurrence	-
07/01/04	\$1,000,000	80,344
07/01/04	50,000,000	
12/12/04	\$500,000 each employee	1,602
12/26/04	ADD \$2,500, Medical \$1,000	500
12/26/04	ADD \$10,000, Medical \$1,000	500

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	
1995	726	32,422,951	166	7,214,424	797,171
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	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>
1995	3,075	1,877	4,952	13.34%
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%

Source: Manhattan Beach City School District

CITY OF MANHATTAN BEACH
DEMOGRAPHIC STATISTICAL DATA

June 30, 2004

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	111	0%
Other	1,366	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



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

Certified Public Accountants

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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 City of Manhattan Beach, California (the City), as of and for the year ended June 30, 2004, and have issued our report thereon November 12, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Manhattan Beach's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 three instances of noncompliance that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States of America:

Fixed Assets

During our test work, we noted that the City does not perform an annual inventory of its fixed assets. This internal control assists the City with compiling a complete fixed asset listing and annually verifying that the assets remain in the City's custody. The absence of such a control could prevent the City from maintaining an accurate fixed asset listing or identifying the misappropriation of its assets. We recommend that the City begin to perform a periodic inventory to ensure that its listing is accurate. Increasing a capitalization policy of \$5,000 is beneficial in allowing the City to complete a physical inventory with more efficiency and ease.

Approval of Voids

We also noted that the City does not document approval of any voids performed on the cash register. This internal control can help prevent the occurrence of any misappropriation of funds in the cash receipting process. We recommend that the proper approval be obtained for any voids or changes in the cash register printouts.





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

Bid Process

During our test work of disbursements, we came across several items where a service proposal was required. During our review of the proposals, we found that the subject documents were not being retained for the contracts not awarded. Retention of these documents is required to show reason for awarding the bid to a specific vendor. We recommend that the such documents be retained centrally.

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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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

Lance, Soll & Lunghard, LLP

November 12, 2004

Management Letter Responses FY 2003-2004 Audit

The following are the City's responses to the Management Letter points from the FY 2003-2004 audit:

Management Letter Point #1 – Fixed Assets

We agree with this point. As part of our compliance with GASB-34, we have planned to implement a new fixed assets inventory module in our finance system that will integrate with our general ledger. We expect to implement that module in the next year, and contemporaneously conduct a physical inventory of assets. The auditors' recommendation to increase the capitalization level from \$1,000 to \$5,000 will improve the efficiency of the physical inventory, which we will conduct periodically once the initial inventory has been accomplished. Additionally, the capitalization policy will be added to the City's formalized Financial Policies.

Management Letter Point #2 – Approval of Voids

We agree with this point, and will implement a process in which the appropriate supervisor will review and approve all voided transactions.

Management Letter Point #3 – Bid Process

We agree with this point. Staff has identified the liability in our process which resulted in the letter point. Until now, departments have been given the ability to independently process RFP's and receive proposals outside of the formal bid process which is centralized within Finance. This has resulted in inconsistent record retention since each department handled differently. This will be corrected by centralizing the processing of all requests for proposals through Finance, with Finance retaining one set of all proposals received.