

CITY OF MANHATTAN BEACH, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006



Prepared by the Finance Department

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach, California, as of and for the year ended June 30, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Federal and State Grants Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the City of Manhattan Beach's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.





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

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

Lance, Soll & Lunghard, LLP

October 19, 2006

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets:			
Current:			
Cash and investments	\$ 41,012,939	\$ 15,451,494	\$ 56,464,433
Receivables:			
Accounts	323,976	741,534	1,065,510
Taxes	3,299,800	-	3,299,800
Accrued interest	567,887	-	567,887
Due from other governments	1,042,039	146,591	1,188,630
Prepaid costs	45,016	-	45,016
Inventories	114,339	63,988	178,327
Total Current Assets	46,405,996	16,403,607	62,809,603
Noncurrent:			
Restricted assets:			
Cash and investments	7,329,375	1,694,256	9,023,631
Unamortized debt issuance costs	318,148	352,691	670,839
Note receivable	309,205	-	309,205
Prepaid pension obligation	678,959	-	678,959
Capital assets not being depreciated	73,823,987	17,116,460	90,940,447
Capital assets, net of depreciation	36,362,779	21,310,572	57,673,351
Total Noncurrent Assets	118,822,453	40,473,979	159,296,432
Total Assets	165,228,449	56,877,586	222,106,035
Liabilities:			
Current:			
Accounts payable	3,627,470	1,164,548	4,792,018
Accrued liabilities	1,005,393	-	1,005,393
Unearned revenue	797,423	-	797,423
Deposits payable	332,355	112,130	444,485
Interest payable	287,250	368,214	655,464
Long-term liabilities due within one year	4,012,298	370,496	4,382,794
Total Current Liabilities	10,062,189	2,015,388	12,077,577
Noncurrent:			
Long-term liabilities due in more than one year	26,123,142	16,439,899	42,563,041
Total Liabilities	36,185,331	18,455,287	54,640,618
Net Assets:			
Invested in capital assets, net of related debt	87,848,226	21,672,032	109,520,258
Restricted for:			
Business improvement districts	-	461,754	461,754
Debt service	10,676,274	1,400,471	12,076,745
Special revenue uses	5,659,610	-	5,659,610
Unrestricted	24,859,008	14,888,042	39,747,050
Total Net Assets	\$ 129,043,118	\$ 38,422,299	\$ 167,465,417

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 7,070,028	\$ 5,425,563	\$ 282,692	\$ -
Public safety	24,270,798	2,925,278	379,041	436,829
Public works	10,380,032	1,168,167	1,504,579	5,161,415
Culture and Recreation	4,724,704	1,965,118	601,553	-
Interest on long-term debt	875,519	-	-	-
Total Governmental Activities	47,321,081	11,484,126	2,767,865	5,598,244
Business-Type Activities:				
Water	6,535,885	6,976,473	-	-
Stormwater	271,364	345,327	-	-
Wastewater	1,143,541	1,310,622	-	-
Refuse	3,692,611	3,684,121	19,758	-
Parking	1,623,963	1,781,333	-	-
Total Business-Type Activities	13,267,364	14,097,876	19,758	-
Total Primary Government	\$ 60,588,445	\$ 25,582,002	\$ 2,787,623	\$ 5,598,244

General Revenues:

Taxes:

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

Intergovernmental, unrestricted:

- Motor vehicle in lieu
- Investment earnings and rents
- Other

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,361,773)	\$ -	\$ (1,361,773)
(20,529,650)	-	(20,529,650)
(2,545,871)	-	(2,545,871)
(2,158,033)	-	(2,158,033)
(875,519)	-	(875,519)
(27,470,846)	-	(27,470,846)
-	440,588	440,588
-	73,963	73,963
-	167,081	167,081
-	11,268	11,268
-	157,370	157,370
-	850,270	850,270
(27,470,846)	850,270	(26,620,576)
15,666,320	-	15,666,320
3,186,359	-	3,186,359
8,072,906	-	8,072,906
1,149,740	-	1,149,740
2,501,180	-	2,501,180
1,001,386	-	1,001,386
835,709	-	835,709
2,623,594	546,197	3,169,791
410,374	-	410,374
(204,000)	204,000	-
35,243,568	750,197	35,993,765
7,772,722	1,600,467	9,373,189
121,270,396	36,821,832	158,092,228
\$ 129,043,118	\$ 38,422,299	\$ 167,465,417

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Capital Projects Funds			
	General	Capital Improvement	Safety and Civic Center Construction	Underground Assessment District
Assets:				
Pooled cash and investments	\$ 18,517,290	\$ 5,043,285	\$ -	\$ 3,346,900
Receivables:				
Accounts	299,634	-	-	-
Taxes	3,299,800	-	-	-
Notes receivable	309,205	-	-	-
Accrued interest	567,887	-	-	-
Prepaid costs	45,016	-	-	-
Due from other governments	220,296	-	-	-
Due from other funds	1,208,848	-	-	-
Restricted assets:				
Cash and investments	404,204	1,107,117	5,536,604	281,450
Total Assets	\$ 24,872,180	\$ 6,150,402	\$ 5,536,604	\$ 3,628,350
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 604,998	\$ 86,067	\$ 669,582	\$ 368,865
Accrued liabilities	949,378	3,000	53,015	-
Due to other funds	-	-	1,208,848	-
Deferred revenues	608,973	-	-	-
Unearned revenue	797,423	-	-	-
Interest payable	-	287,250	-	-
Deposits payable	332,355	-	-	-
Total Liabilities	3,293,127	376,317	1,931,445	368,865
Fund Balances:				
Reserved for:				
Encumbrances	291,889	-	1,939	-
Continuing projects	-	3,005,162	3,399,205	281,450
Prepaid costs	45,017	-	-	-
Debt Service	404,204	835,696	-	-
Long-term receivables	309,205	-	-	-
Unreserved, reported in:				
General fund	20,528,738	-	-	-
Special revenue funds	-	-	-	-
Capital project funds	-	1,933,227	204,015	2,978,035
Total Fund Balances	21,579,053	5,774,085	3,605,159	3,259,485
Total Liabilities and Fund Balances	\$ 24,872,180	\$ 6,150,402	\$ 5,536,604	\$ 3,628,350

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue		
	Fund	Other	Total
	Federal and	Governmental	Governmental
	State Grants	Funds	Funds
Assets:			
Pooled cash and investments	\$ 1,007,990	\$ 5,586,180	\$ 33,501,645
Receivables:			
Accounts	-	24,342	323,976
Taxes	-	-	3,299,800
Notes receivable	-	-	309,205
Accrued interest	-	-	567,887
Prepaid costs	-	-	45,016
Due from other governments	700,000	121,743	1,042,039
Due from other funds	-	-	1,208,848
Restricted assets:			
Cash and investments	-	-	7,329,375
Total Assets	\$ 1,707,990	\$ 5,732,265	\$ 47,627,791
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 1,707,990	\$ 72,655	\$ 3,510,157
Accrued liabilities	-	-	1,005,393
Due to other funds	-	-	1,208,848
Deferred revenues	-	-	608,973
Unearned revenue	-	-	797,423
Interest payable	-	-	287,250
Deposits payable	-	-	332,355
Total Liabilities	1,707,990	72,655	7,750,399
Fund Balances:			
Reserved for:			
Encumbrances	-	216,987	510,815
Continuing projects	-	3,331,025	10,016,842
Prepaid costs	-	-	45,017
Debt Service	-	-	1,239,900
Long-term receivables	-	-	309,205
Unreserved, reported in:			
General fund	-	-	20,528,738
Special revenue funds	-	2,111,598	2,111,598
Capital project funds	-	-	5,115,277
Total Fund Balances	-	5,659,610	39,877,392
Total Liabilities and Fund Balances	\$ 1,707,990	\$ 5,732,265	\$ 47,627,791

CITY OF MANHATTAN BEACH

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Fund balances of governmental funds	\$ 39,877,392
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.	107,225,529
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(23,654,826)
Deferred revenues are shown as revenue under full accrual accounting.	608,973
Prepaid pension benefit obligation is not reported in the governmental funds; however, it is reported in the government-wide statements.	678,960
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>4,307,090</u>
Net assets of governmental activities	<u><u>\$129,043,118</u></u>

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Capital Projects Funds			
	General	Capital Improvement	Safety and Civic Center Construction	Underground Assessment District
Revenues:				
Taxes and assessments	\$ 31,082,815	\$ 470,732	\$ -	\$ -
Licenses and permits	1,694,393	116,288	-	-
Intergovernmental	1,347,606	252,903	-	-
Contribution from property owners	-	-	-	3,147,739
Charges for services	6,835,574	558,266	-	-
Use of money and property	2,623,593	54,633	294,962	24,611
Fines and forfeitures	1,787,514	107,992	-	-
Miscellaneous	489,353	-	87,235	-
Total Revenues	45,860,848	1,560,814	382,197	3,172,350
Expenditures:				
Current:				
General government	7,452,849	-	-	-
Public safety	23,977,154	577,856	-	-
Culture and recreation	4,569,461	10,000	-	-
Public works	5,706,463	3,291,942	13,849,373	574,267
Total Expenditures	41,705,927	3,879,798	13,849,373	574,267
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,154,921	(2,318,984)	(13,467,176)	2,598,083
Other Financing Sources (Uses):				
Transfers in	48,000	705,000	-	-
Transfers out	(230,000)	(37,000)	(475,000)	-
Total Other Financing Source (Uses)	(182,000)	668,000	(475,000)	-
Net Change in Fund Balances	3,972,921	(1,650,984)	(13,942,176)	2,598,083
Fund Balances, Beginning of Year, as originally reported	17,440,250	7,425,069	17,547,335	661,402
Restatements	165,882	-	-	-
Fund Balances, Beginning of Year, as restated	17,606,132	7,425,069	17,547,335	661,402
Fund Balances, End of Year	\$ 21,579,053	\$ 5,774,085	\$ 3,605,159	\$ 3,259,485

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Fund		
	Federal and State Grants	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes and assessments	\$ -	\$ 1,472,542	\$ 33,026,089
Licenses and permits	-	-	1,810,681
Intergovernmental	380,000	1,013,629	2,994,138
Contribution from property owners	-	-	3,147,739
Charges for services	-	6,357	7,400,197
Use of money and property	-	164,216	3,162,015
Fines and forfeitures	-	-	1,895,506
Miscellaneous	1,239,874	47,475	1,863,937
Total Revenues	1,619,874	2,704,219	55,300,302
Expenditures:			
Current:			
General government	-	-	7,452,849
Public safety	-	40,195	24,595,205
Culture and recreation	-	549,772	5,129,233
Public works	1,707,990	1,645,231	26,775,266
Total Expenditures	1,707,990	2,235,198	63,952,553
Excess (Deficiency) of Revenues Over (Under) Expenditures	(88,116)	469,021	(8,652,251)
Other Financing Sources (Uses):			
Transfers in	88,116	-	841,116
Transfers out	-	(303,116)	(1,045,116)
Total Other Financing Source (Uses)	88,116	(303,116)	(204,000)
Net Change in Fund Balances	-	165,905	(8,856,251)
Fund Balances, Beginning of Year, as originally reported	-	5,493,705	48,567,761
Restatements	-	-	165,882
Fund Balances, Beginning of Year, as restated	-	5,493,705	48,733,643
Fund Balances, End of Year	\$ -	\$ 5,659,610	\$ 39,877,392

CITY OF MANHATTAN BEACH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

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

Net change in fund balances - total governmental funds \$ (8,856,251)

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

Cost of assets capitalized	18,118,069
Depreciation expense	(1,649,324)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 190,000

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

Amortization for current fiscal year	(12,286)
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Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:

Amortization for current fiscal year	6,796
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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. (222,211)

The change in the prepaid pension obligation is reported only at the government-wide level. (81,721)

Change in deferred revenues are reported as revenue in the government-wide statements. (151,936)

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities. 431,586

Change in net assets of governmental activities \$ 7,772,722

CITY OF MANHATTAN BEACH

**BUDGETARY COMPARISON STATEMENT
 GENERAL FUND
 YEAR ENDED JUNE 30, 2006**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 27,525,000	\$ 27,525,000	\$ 31,082,815	\$ 3,557,815
Licenses and permits	1,446,100	1,514,726	1,694,393	179,667
Intergovernmental	538,010	705,668	1,347,606	641,938
Charges for services	6,235,600	6,259,770	6,835,574	575,804
Use of money and property	2,584,650	2,584,650	2,623,593	38,943
Fines and forfeitures	2,332,300	2,332,300	1,787,514	(544,786)
Miscellaneous	438,000	438,000	489,353	51,353
Total Resources	41,099,660	41,360,114	45,860,848	4,500,734
Charges to Appropriation (Outflow):				
General government	7,900,873	8,068,209	7,452,849	615,360
Public safety	24,323,254	24,563,503	23,977,154	586,349
Culture and recreation	4,553,701	4,606,971	4,569,461	37,510
Public works	5,062,473	5,393,316	5,706,463	(313,147)
Total Charges to Appropriation	41,840,301	42,631,999	41,705,927	926,072
Other Financing Sources:				
Transfers in	150,000	48,000	48,000	-
Transfers out	-	(230,000)	(230,000)	-
Total Other Financing Sources	150,000	(182,000)	(182,000)	-
Net Change in Fund Balances	(590,641)	(1,453,885)	3,972,921	5,426,806
Fund Balance, Beginning of Year	17,606,132	17,606,132	17,606,132	-
Fund Balance, End of Year	\$ 17,015,491	\$ 16,152,247	\$ 21,579,053	\$ 5,426,806

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON STATEMENT
 FEDERAL AND STATE GRANTS
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 680,000	\$ 680,000	\$ 380,000	\$ (300,000)
Other	-	1,027,990	1,239,874	211,884
Total Resources	680,000	1,707,990	1,619,874	(88,116)
Charges to Appropriation (Outflow):				
Public works	680,000	1,707,990	1,707,990	-
Total Charges to Appropriations	680,000	1,707,990	1,707,990	-
Other Financing Sources:				
Transfers in	-	-	88,116	88,116
Total Other Financing Sources	-	-	88,116	88,116
Net Change in Fund Balances	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2006

	Water	Storm Water	Wastewater	Refuse
Assets:				
Current:				
Cash and investments	\$ 9,026,584	\$ 1,094,936	\$ 1,302,257	\$ 873,674
Receivables:				
Accounts	347,018	23,024	73,253	297,249
Due from other governments	146,591	-	-	-
Inventories	63,988	-	-	-
Restricted assets:				
Cash and investments	227,258	-	111,574	-
Total Current Assets	9,811,439	1,117,960	1,487,084	1,170,923
Noncurrent:				
Unamortized debt issuance costs	74,840	-	36,816	-
Capital assets - net of accumulated depreciation	11,190,978	4,347,891	5,481,932	-
Total Noncurrent Assets	11,265,818	4,347,891	5,518,748	-
Total Assets	\$ 21,077,257	\$ 5,465,851	\$ 7,005,832	\$ 1,170,923
Liabilities and Net Assets:				
Liabilities:				
Current:				
Accounts payable	\$ 444,451	\$ 18,329	\$ 62,905	\$ 289,180
Accrued leave payable	5,496	-	-	-
Interest payable	49,882	-	24,546	-
Workers' compensation claims	-	-	-	-
General liability claims	-	-	-	-
Deposits payable	3,323	94,839	-	-
Current portion of bonds payable	67,033	-	32,967	-
Total Current Liabilities	570,185	113,168	120,418	289,180
Noncurrent:				
Bonds, notes and loans payable	2,560,342	-	1,259,658	-
Accrued leave long-term	49,899	-	-	-
Workers' compensation claims	-	-	-	-
Liability claims	-	-	-	-
Lease Payable	-	-	-	-
Total Noncurrent Liabilities	2,610,241	-	1,259,658	-
Total Liabilities	3,180,426	113,168	1,380,076	289,180
Net Assets:				
Invested in capital assets, net of related debt	8,563,603	4,347,891	4,189,307	-
Restricted for debt service	227,258	-	111,574	-
Restricted for business improvement district	-	-	-	-
Unrestricted	9,105,970	1,004,792	1,324,875	881,743
Total Net Assets	17,896,831	5,352,683	5,625,756	881,743
Total Liabilities and Net Assets	\$ 21,077,257	\$ 5,465,851	\$ 7,005,832	\$ 1,170,923

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Parking	Nonmajor Enterprise Funds	Totals	Governmental Activities Internal Service Funds
Assets:				
Current:				
Cash and investments	\$ 1,444,347	\$ 1,709,696	\$ 15,451,494	\$ 7,511,296
Receivables:				
Accounts	990	-	741,534	-
Due from other governments	-	-	146,591	-
Inventories	-	-	63,988	114,339
Restricted assets:				
Cash and investments	1,355,424	-	1,694,256	-
Total Current Assets	2,800,761	1,709,696	18,097,863	7,625,635
Noncurrent:				
Unamortized debt issuance costs	241,035	-	352,691	-
Capital assets - net of accumulated depreciation	17,406,231	-	38,427,032	2,961,235
Total Noncurrent Assets	17,647,266	-	38,779,723	2,961,235
Total Assets	\$ 20,448,027	\$ 1,709,696	\$ 56,877,586	\$ 10,586,870
Liabilities and Net Assets:				
Liabilities:				
Current:				
Accounts payable	\$ 226,524	\$ 123,159	\$ 1,164,548	\$ 117,313
Accrued leave payable	-	-	5,496	-
Interest payable	293,786	-	368,214	-
Workers' compensation claims	-	-	-	2,958,656
General liability claims	-	-	-	268,155
Deposits payable	13,420	548	112,130	-
Current portion of bonds payable	265,000	-	365,000	162,503
Total Current Liabilities	798,730	123,707	2,015,388	3,506,627
Noncurrent:				
Bonds, notes and loans payable	12,570,000	-	16,390,000	-
Accrued leave long-term	-	-	49,899	-
Workers' compensation claims	-	-	-	1,874,046
Liability claims	-	-	-	340,916
Lease Payable	-	-	-	558,191
Total Noncurrent Liabilities	12,570,000	-	16,439,899	2,773,153
Total Liabilities	13,368,730	123,707	18,455,287	6,279,780
Net Assets:				
Invested in capital assets, net of related debt	4,571,231	-	21,672,032	2,240,541
Restricted for debt service	1,061,638	-	1,400,470	-
Restricted for business improvement district	461,755	-	461,755	-
Unrestricted	984,673	1,585,989	14,888,042	2,066,549
Total Net Assets	7,079,297	1,585,989	38,422,299	4,307,090
Total Liabilities and Net Assets	\$ 20,448,027	\$ 1,709,696	\$ 56,877,586	\$ 10,586,870

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
MAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>	<u>Refuse</u>
Operating Revenues:				
Sales and service charges	\$ 6,970,189	\$ 345,327	\$ 1,293,178	\$ 3,683,966
Miscellaneous	6,285	-	17,444	155
Total Operating Revenues	6,976,474	345,327	1,310,622	3,684,121
Operating Expenses:				
Salaries and wages	581,674	38,379	147,674	-
Employee benefits	214,745	67,810	44,285	-
Contract and professional services	3,405,770	23,691	17,068	3,255,772
Materials and services	504,147	7,858	108,578	98,033
Utilities	197,726	-	18,914	262
Administrative service charges	1,157,316	-	595,512	338,544
Leases and rents	-	-	-	-
Depreciation	317,093	133,626	134,064	-
Total Operating Expenses	6,378,471	271,364	1,066,095	3,692,611
Operating Income (Loss)	598,003	73,963	244,527	(8,490)
Nonoperating Revenues (Expenses):				
Intergovernmental	-	-	-	19,758
Interest revenue	280,300	34,703	54,648	24,839
Interest expense	(157,414)	-	(77,445)	-
Total Nonoperating Revenues (Expenses)	122,886	34,703	(22,797)	44,597
Income (Loss) Before Transfers	720,889	108,666	221,730	36,107
Transfers in	-	215,000	-	-
Transfers out	-	-	-	-
Changes in Net Assets	720,889	323,666	221,730	36,107
Net Assets:				
Beginning of Fiscal Year	17,175,942	5,029,017	5,404,026	845,636
End of Fiscal Year	\$ 17,896,831	\$ 5,352,683	\$ 5,625,756	\$ 881,743

Changes in net assets, enterprise funds

Changes in net assets of business-type activities

CITY OF MANHATTAN BEACH

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
MAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Parking	Nonmajor Enterprise Funds	Totals	Governmental Activities- Internal Service Funds
Operating Revenues:				
Sales and service charges	\$ 1,085,194	\$ 619,351	\$ 13,997,205	\$ 6,158,089
Miscellaneous	64,118	12,669	100,671	126,101
Total Operating Revenues	1,149,312	632,020	14,097,876	6,284,190
Operating Expenses:				
Salaries and wages	52,724	37,835	858,286	832,556
Employee benefits	16,474	11,431	354,745	351,730
Contract and professional services	110,935	138,699	6,951,935	344,412
Materials and services	156,519	28,507	903,642	3,592,914
Utilities	85,058	38,234	340,194	152,758
Administrative service charges	90,050	33,412	2,214,834	138,628
Leases and rents	-	167,160	167,160	6,000
Depreciation	52,799	-	637,582	414,130
Total Operating Expenses	564,559	455,278	12,428,378	5,833,128
Operating Income (Loss)	584,753	176,742	1,669,498	451,062
Nonoperating Revenues (Expenses):				
Intergovernmental	-	-	19,758	-
Interest revenue	107,699	44,006	546,195	-
Interest expense	(604,125)	-	(838,984)	(19,476)
Total Nonoperating Revenues (Expenses)	(496,426)	44,006	(273,031)	(19,476)
Income (Loss) Before Transfers	88,327	220,748	1,396,467	431,586
Transfers in	37,000	-	252,000	-
Transfers out	-	(48,000)	(48,000)	-
Changes in Net Assets	125,327	172,748	1,600,467	431,586
Net Assets:				
Beginning of Fiscal Year	6,953,970	1,413,241	36,821,832	3,875,504
End of Fiscal Year	\$ 7,079,297	\$ 1,585,989	\$ 38,422,299	\$ 4,307,090
			\$ 1,600,467	
			\$ 1,600,467	

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Funds			
	Water	Storm Water	Wastewater	Refuse
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 6,919,244	\$ 326,518	\$ 1,320,709	\$ 3,687,535
Cash received from interfund service provided	-	-	-	-
Cash paid to supplies for goods and services	(3,869,262)	(57,737)	(20,257)	(3,266,200)
Cash paid to employees for services	(723,039)	(35,448)	(183,574)	-
Cash paid for interfund services used	(1,400,406)	(40,906)	(667,698)	(385,895)
Net Cash Provided (Used) by Operating Activities	926,537	192,427	449,180	35,440
Cash Flows from Noncapital Financing Activities:				
Other nonoperating revenue	-	-	-	19,758
Cash transfer from other funds	-	215,000	-	-
Cash transfer to other funds	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	215,000	-	19,758
Cash Flows from Capital and Related Financing Activities:				
Purchases of capital assets	(709,037)	(696,351)	(728,169)	-
Principal paid on capital debt	(67,025)	-	(32,975)	-
Interest paid on capital debt	(147,991)	-	(72,809)	-
Bond administration fee	(2,622)	-	(1,290)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(926,675)	(696,351)	(835,243)	-
Cash Flows from Investing Activities:				
Interest received	280,302	34,702	54,647	24,838
Net Cash Provided (Used) by Investing Activities	280,302	34,702	54,647	24,838
Net Increase (Decrease) in Cash and Cash Equivalents	280,164	(254,222)	(331,416)	80,036
Cash and Cash Equivalents at Beginning of Year	8,973,678	1,349,158	1,745,247	793,638
Cash and Cash Equivalents at End of Year	\$ 9,253,842	\$ 1,094,936	\$ 1,413,831	\$ 873,674

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Enterprise Funds			
	Parking	Other Enterprise Funds	Total	
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 1,669,356	\$ 621,351	\$ 14,544,713	\$ 176,927
Cash received from interfund service provided	-	-	-	6,245,839
Cash paid to supplies for goods and services	(402,246)	(371,440)	(7,987,142)	(3,786,462)
Cash paid to employees for services	(66,112)	(47,206)	(1,055,379)	(1,035,926)
Cash paid for interfund services used	(567,455)	(29,701)	(3,092,061)	(711,059)
Net Cash Provided (Used) by Operating Activities	633,543	173,004	2,410,131	889,319
Cash Flows from Noncapital Financing Activities:				
Other nonoperating revenue	-	-	19,758	-
Cash transfer from other funds	37,000	-	252,000	-
Cash transfer to other funds	-	(48,000)	(48,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	37,000	(48,000)	223,758	-
Cash Flows from Capital and Related Financing Activities:				
Purchases of capital assets	(1,917,102)	-	(4,050,659)	(772,120)
Principal paid on capital debt	(260,000)	-	(360,000)	(129,288)
Interest paid on capital debt	(592,771)	-	(813,571)	(19,476)
Bond administration fee	(2,925)	-	(6,837)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,772,798)	-	(5,231,067)	(920,884)
Cash Flows from Investing Activities:				
Interest received	107,697	44,006	546,192	-
Net Cash Provided (Used) by Investing Activities	107,697	44,006	546,192	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,994,558)	169,010	(2,050,986)	(31,565)
Cash and Cash Equivalents at Beginning of Year	4,794,329	1,540,686	19,196,736	7,542,861
Cash and Cash Equivalents at End of Year	\$ 2,799,771	\$ 1,709,696	\$ 17,145,750	\$ 7,511,296

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Funds			
	Water	Storm Water	Wastewater	Refuse
Reconciliation of Operating Income to net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 598,003	\$ 73,963	\$ 244,527	\$ (8,490)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	317,093	133,626	134,064	-
(Increase) decrease in accounts receivable	(81,206)	(18,809)	11,033	3,334
(Increase) decrease in inventories	5,837	-	-	-
(Increase) decrease in prepaid expense	50	-	-	-
Increase (decrease) in accounts payable	95,036	12,498	59,556	40,596
Increase (decrease) in accrued liabilities	(8,145)	-	-	-
Increase (decrease) in deposits payable	(131)	(8,851)	-	-
Increase (decrease) in claims payable	-	-	-	-
Total Adjustments	328,534	118,464	204,653	43,930
Net Cash Provided (Used) by Operating Activities	\$ 926,537	\$ 192,427	\$ 449,180	\$ 35,440

CITY OF MANHATTAN BEACH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Funds			Governmental Activities - Internal Service Funds
	Parking	Other Enterprise Funds	Total	
Reconciliation of Operating Income to net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 584,753	\$ 176,742	\$ 1,669,498	\$ 451,062
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	52,799	-	637,582	414,130
(Increase) decrease in accounts receivable	-	-	(85,648)	-
(Increase) decrease in inventories	-	-	5,837	(21,390)
(Increase) decrease in prepaid expense	85,362	128	85,540	8,282
Increase (decrease) in accounts payable	(101,101)	(3,866)	102,719	(3,646)
Increase (decrease) in accrued liabilities	-	-	(8,145)	-
Increase (decrease) in deposits payable	11,730	-	2,748	-
Increase (decrease) in claims payable	-	-	-	40,881
Total Adjustments	48,790	(3,738)	740,633	438,257
Net Cash Provided (Used) by Operating Activities	\$ 633,543	\$ 173,004	\$ 2,410,131	\$ 889,319

See Notes to Financial Statements

CITY OF MANHATTAN BEACH

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2006

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and investments pooled with all City funds	\$ 1,619,339	\$ 519,655
Receivables:		
Accounts	-	17,778
Restricted assets:		
Cash with fiscal agent	-	<u>1,665,385</u>
Total Assets	<u>\$ 1,619,339</u>	<u>\$ 2,202,818</u>
 Liabilities:		
Liabilities:		
Accounts payable	\$ -	\$ 10,000
401(a) plan deposits	-	1,299,484
Art development fees	-	266,859
Other deposits	-	84,076
Due to bond holders	-	<u>542,399</u>
Total Liabilities	-	<u>\$ 2,202,818</u>
 Net Assets:		
Held in trust for pension benefits and other purposes	<u>\$ 1,619,339</u>	

CITY OF MANHATTAN BEACH

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Pension Trust Fund</u>
Additions:	
City contributions	\$ 53,290
Investment earnings:	
Interest	82,042
Total Additions	<u>135,332</u>
Deductions:	
Benefits	<u>83,539</u>
Total Deductions	<u>83,539</u>
 Excess Additions Over Deductions	 <u>51,793</u>
 Changes in net assets	 51,793
Net Assets - Beginning of the Year	<u>1,567,546</u>
Net Assets - End of the Year	<u><u>\$ 1,619,339</u></u>

CITY OF MANHATTAN BEACH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 Certificates 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 portion of the project was completed in November 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 was substantially completed in the 2005-2006 fiscal year and is fully operational as of the date of this report.

b. Accounting and Reporting Policies

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

c. Description of Funds

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

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

Governmental Fund Types

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

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

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

Pension Trust Funds - to account for resources that are required to be held in trust for the members and beneficiaries of supplemental retirement plans, single highest year plans, and post retirement health plans for firefighters and for police.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

Agency Funds:

- Special Assessment Redemption Fund – to account for special assessment collections for debt service for the underground assessment bonds that the City remits to the fiscal agent.
- Special Deposits Fund – to account for 401(a) plan deposits, utility development deposits, art development fees and other miscellaneous items.

d. Basis of Accounting/Measurement Funds

Government-Wide Financial Statements

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

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

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

Financial Statement Classification

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

Invested in Capital Assets, Net of Related Debt

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

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

This category represents 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 assets presented in the government-wide financial statements. The City has presented all major funds that met the qualifications of GASB Statement No. 34.

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

The modified accrual basis of accounting is used by all governmental funds as the basis for recognizing revenues. Under the modified accrual 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 are 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.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

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.

Proprietary Funds Financial Statements

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

Major Funds

The City reports the following major governmental funds:

The General Fund is used to account for all unrestricted resources except those required to be accounted for in another fund. This fund accounts for general citywide operations.

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

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

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

The Federal and State Grants Fund acts as a pass through for capital grants received from local, state and federal authorities. Given the nature of this funding source, this fund's activity levels can vary significantly from year to year.

The City reports the following major proprietary funds:

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

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

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

Refuse Fund is used to account for the provision of refuse collection, street sweeping and recycling services in the City. The City bills both residential and commercial properties.

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.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

e. Property Tax Calculator

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

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

f. Capital Assets

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

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

In 2002-2003, the City contracted with an independent firm to obtain a valuation of its capital assets. This was done to specifically comply with the reporting requirements of GASB Statement No. 34. For purposes of this study, capital assets were defined to include land, buildings and improvements, City owned utilities, streets and roadways, and parks and recreation facilities and improvements. This significant valuation project entailed many steps covering several months of work. Key steps to the project included: obtaining an inventory of all material City owned assets, establishing acquisition dates, deriving historical costs, developing and recommending useful lives, and constructing a basis for depreciation in arriving at a June 30, 2006, 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:

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

<u>Asset</u>	<u>Years</u>
Equipment	5 - 20
Vehicles	3 - 20
Buildings/Improvements	40- 100
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.

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; 125 medical flex plan; outstanding Water and Wastewater; Marine Avenue Sports Field; and Metlox, Police & Fire Facility bonded debt, which are held by outside trustees. City employees individually direct their investments in the 401(a) plan.

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental, business-type, and Trust & Agency activities have not been eliminated.

j. Long-Term Obligations

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

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

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 \$3,226,811 and \$2,214,962, 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.

k. Vacation and Sick Leave

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

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

l. Supplemental Leave Allowance

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2006, the total accrued liability for this benefit amounted to \$41,536, based on accumulated hours for months in service during the time period from January 1, 1990 to December 4, 1994, as specified in the parameters of the plan. Upon termination, the employee will be paid for any unused leave and as such the total amount of the liability is accrued as a long-term item (see Note 5).

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

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

This balance decreased from prior year levels reflecting cash payouts to benefiting employees to be used in funding a newly established and optional employee funded retirement health savings plan.

m. Allocation of Interest Income Among Funds

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

n. Cash Flow Statements

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

o. Estimates

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

p. Use of Restricted Resources

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

q. Stewardship, Compliance and Accountability

The Insurance Reserve Internal Service Fund had negative net assets in the amount of \$202,125 at June 30, 2006, while working capital reserve levels remain within financial policy limits at \$2,012,837. In the FY 2006-2007 budget, the city approved a transfer of \$1.3 million into this fund to address this operating shortfall and has adjusted departmental charges to reflect higher cost levels.

Note 2: Cash and Investments

As of June 30, 2006, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 48,342,314
Business-type activities	17,145,750
Fiduciary funds	<u>3,804,379</u>
Total Cash and Investments	<u>\$ 69,292,443</u>

The City of Manhattan Beach maintains a cash and investment pool that is available for use for all funds, including fiduciary 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.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

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

a. Deposits

At June 30, 2006, the carrying amount of the City's deposits was \$2,735,404, and the bank balance was \$4,684,562. The \$1,949,158 difference represents outstanding checks and other reconciling items.

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

b. Authorized Investments

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

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

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.

The City's investment policy does not allow the use of reverse-repurchase agreements and, accordingly, the City did not borrow through the use of reverse-repurchase agreements at any time during the year.

c. Investments Authorized by Debt Agreements

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

d. Investments in State Investment Pool

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

The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holdings in LAIF. The City had a contractual withdrawal value of \$11,261,000 whose pro-rata share of fair value was estimated by the State Treasurer to be \$11,240,571.

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

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

f. Cash and Investments - 401 (a) Plan

The City contributes to a 401(a) plan for its management confidential employees into which these employees can make voluntary contributions. The fair value of the plan assets at June 30, 2006, was \$1,299,484.

g. GASB Statement No. 31

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

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, 2006, \$579,901 of unrealized loss was recorded in the investment portfolio.

h. Credit Risk

The City's investment policy limits investments in medium-term notes (MTN's) to those rated in the top three rating categories by two of the three largest nationally recognized rating services at time of purchase. As of June 30, 2006, the City's investment in medium-term notes consisted of investments with Bank of America, Berkshire Hathaway, Citicorp, Fleet Financial Group, General Electric Capital, Gillette Company, National City Bank and Wachovia Bank. At June 30, 2006, all MTN's were rated "A" or higher by Moody's. All securities were investment grade and were legal under state and city policies. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2006, the City's investments in external investment pools and money market mutual funds are unrated.

i. Custodial Credit Risk

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

As of June 30, 2006, none of the City's deposits or investments was exposed to custodial credit risk.

j. Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer for the following types of investments. With respect to concentration of credit risk, as of June 30, 2006, the City is in compliance with its investment policy's restrictions.

In accordance with GASB Statement No. 40, if the city has invested more than 5% of its total investments in any one issuer then it is exposed to credit risk. As of June 30, 2006, the City is well diversified holding only the following investment with the following issuer valued at more than 5% of its total investments:

General Electric Capital	\$3,467,675	6%
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These medium term notes mature well within two years and are highly rated as AAA investments by both Moody's and Standard and Poor's.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

k. Interest Rate Risk

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

As of June 30, 2006, the City had the following investments and original maturities:

	Remaining Investment Maturities			Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	
Pooled Investments:				
Local Government Fund	11,240,571			11,240,571
US Treasury and agency notes	10,447,625	8,366,140	17,901,268	36,715,033
Medium-term notes	2,974,590	982,150	5,338,250	9,294,990
	<u>\$ 24,662,786</u>	<u>\$ 9,348,290</u>	<u>\$ 23,239,518</u>	<u>\$ 57,250,594</u>
Investment with Fiscal Agents:				
Police & Fire Construction				6,643,722
Utility Undergrounding				564,263
Metlox certificates of participation				1,355,424
Marine certificates of participation				404,204
Water/wastewater revenue bonds				338,832
				<u>\$ 9,306,445</u>
Demand deposits				1,339,734
Other deposits				10,990
Petty cash				2,110
				<u>\$ 1,352,834</u>
Other Funds and Deposits:				
401(a) employee plan				1,299,484
Medical Flex Plan				83,086
				<u>\$ 1,382,570</u>
Grand Total				<u>\$ 69,292,443</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Interfund Transactions

Interfund Transfers

With City Council approval, resources may be transferred from one fund to another. Transfers between individual funds during the fiscal year ended June 30, 2006, are presented below:

	Transfers To:					Total
	General Fund	Capital Improvement Fund	Federal and State Grants Fund	Storm Water Fund	Parking Fund	
Transfers From:						
Major Governmental Funds:						
General Fund		230,000				230,000
Capital Improvements Fund					37,000	37,000
Police Fire Const. Fund		475,000				475,000
Nonmajor Governmental Fund			88,116	215,000		303,116
Nonmajor Proprietary Funds	48,000					48,000
Total	\$ 48,000	\$ 705,000	\$ 88,116	\$ 215,000	\$ 37,000	\$ 1,093,116

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

- A \$475,000 transfer of excess reserve earnings and project savings out of the Police and Fire Construction Fund to the Capital Improvement Fund for City Council approved City Hall remodel costs.
- The General Fund transferred \$230,000 into the Capital Improvement Fund to complete funding of the citywide Facilities Strategic Plan project budget.
- A \$215,000 transfer out of project eligible dollars from the Proposition C Fund to Storm Water Fund to support funding improvements to city storm lines
- A \$88,116 transfer out of project eligible dollars from the Proposition C Fund to Federal & State Grants Fund to support funding improvements to Rosecrans Blvd.
- \$48,000 of excess reserves from the County Lot Fund was transferred to the General Fund in line with budget projections.
- A \$37,000 transfer out of available Capital Improvement Fund reserves to the Parking Fund to finalize Metlox public improvements.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 3: Interfund Transactions (Continued)

Due To/From Other Funds

	<u>Due To Other Funds:</u>		
	Safety and Civic Center		
	<u>Construction Fund</u>	<u>Total</u>	
Due From Other Funds:			
General Fund	\$ 1,208,848	\$ 1,208,848	

The amount due to the General Fund represents a reimbursement of construction fund advance to the General Fund from bonded project dollars residing in the Safety and Civic Center Construction fund.

Note 4: Capital Assets and Depreciation

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2006:

	<u>Beginning</u>				<u>Ending</u>
	Balance	Increases	Decreases	Transfers	Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 33,634,566	\$ -			\$ 33,634,566
Construction-in-progress	26,615,847	16,948,788		(3,375,214)	40,189,421
Total Capital Assets, Not Being Depreciated	60,250,413	16,948,788	-	(3,375,214)	73,823,987
Capital assets, being depreciated:					
Buildings and structures	4,811,732				4,811,732
Machinery and equipment	4,075,260	1,169,280	(157,348)		5,087,192
Vehicles	5,232,496	1,622,102	(786,924)		6,067,674
Streets and roadways	34,049,126			3,375,214	37,424,340
Parks and recreation	10,885,500				10,885,500
Total Capital Assets, Being Depreciated	59,054,114	2,791,382	(944,272)	3,375,214	64,276,438
Less accumulated depreciation:					
Buildings and structures	(2,047,328)	(94,405)			(2,141,733)
Machinery and equipment	(2,642,448)	(294,879)	115,159		(2,822,168)
Vehicles	(3,479,232)	(396,063)	768,857		(3,106,438)
Streets and roadways	(15,483,390)	(1,027,579)			(16,510,969)
Parks and recreation	(3,142,079)	(190,272)			(3,332,351)
Total Accumulated Depreciation	(26,794,477)	(2,003,198)	884,016	-	(27,913,659)
Total Capital Assets, Being Depreciated, Net	32,259,637	788,184	(60,256)	3,375,214	36,362,779
Governmental Activities Capital Assets, Net	<u>\$ 92,510,050</u>	<u>\$ 17,736,972</u>	<u>\$ (60,256)</u>	<u>\$ -</u>	<u>\$ 110,186,766</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 4: Capital Assets and Depreciation (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-Type Activities:					
Capital assets, not being depreciated:					
Land - water	\$ 307,967				\$ 307,967
Land - storm water	7,650				7,650
Land - parking	1,441,817				1,441,817
Construction-in-progress	<u>13,734,554</u>	<u>4,050,659</u>		<u>(2,426,187)</u>	<u>15,359,026</u>
Total Capital Assets, Not Being Depreciated	<u>15,491,988</u>	<u>4,050,659</u>	<u>-</u>	<u>(2,426,187)</u>	<u>17,116,460</u>
Capital assets, being depreciated:					
Buildings and structures - parking	1,881,778				1,881,778
Machinery and equipment - parking	689,151			49,435	738,586
Water	17,494,578			1,032,079	18,526,657
Storm water	5,729,338			940,258	6,669,596
Wastewater	<u>9,168,712</u>			<u>404,415</u>	<u>9,573,127</u>
Total Capital Assets, Being Depreciated	<u>34,963,557</u>	<u>-</u>	<u>-</u>	<u>2,426,187</u>	<u>37,389,744</u>
Less Accumulated Depreciation:					
Buildings and structures - parking	(576,123)	(29,067)			(605,190)
Machinery and equipment - parking	(456,408)	(23,732)			(480,140)
Water	(7,609,662)	(317,093)			(7,926,755)
Storm water	(2,339,657)	(133,626)			(2,473,283)
Wastewater	<u>(4,459,740)</u>	<u>(134,064)</u>			<u>(4,593,804)</u>
Total Accumulated Depreciation	<u>(15,441,590)</u>	<u>(637,582)</u>	<u>-</u>	<u>-</u>	<u>(16,079,172)</u>
Total Capital Assets, Being Depreciated, Net	<u>19,521,967</u>	<u>(637,582)</u>	<u>-</u>	<u>2,426,187</u>	<u>21,310,572</u>
Business-Type Activities Capital Assets, Net	<u>\$ 35,013,955</u>	<u>\$ 3,413,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,427,032</u>

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 4: Capital Assets and Depreciation (Continued)

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

Governmental Activities:	
General government	\$ 137,413
Public safety	130,409
Public works	1,502,949
Culture and recreation	<u>232,427</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,003,198</u>
Business-Type Activities:	
Water	\$ 317,093
Storm water	133,626
Wastewater	134,064
Parking	<u>52,799</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 637,582</u>

Note 5: Long-Term Liabilities

The following is a summary of changes in long-term liability for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
Long-term debt:					
Capital lease	\$ -	\$ 720,693	\$ -	\$ 720,693	\$ 162,503
Marine Avenue certificate of participation	8,970,000		(190,000)	8,780,000	200,000
Police Fire COPs	12,980,000			12,980,000	240,000
Other long-term liabilities:					
Supplemental leave allowance	45,292		(3,756)	41,536	
Compensated absences	1,769,476	437,593	(211,625)	1,995,444	182,984
Workers' compensation claims	4,847,213	798,200	(812,711)	4,832,702	2,958,656
General liability claims	<u>553,678</u>	<u>578,896</u>	<u>(523,502)</u>	<u>609,072</u>	<u>268,155</u>
Governmental Activity Long-Term Liabilities	<u>\$ 29,165,659</u>	<u>\$ 2,535,382</u>	<u>\$ (1,741,594)</u>	\$ 29,959,447	<u>\$ 4,012,298</u>
			Unamortized premium	<u>175,993</u>	
				<u>\$ 30,135,440</u>	
Business-Type Activities:					
Long-term debt:					
Water Fund certificate of participation	\$ 2,691,048		(63,673)	\$ 2,627,375	\$ 67,033
Wastewater Fund certificate of participation	1,323,952		(31,327)	1,292,625	32,967
Metlox certificate of participation	13,095,000		(260,000)	12,835,000	265,000
Other long-term liabilities:					
Compensated absences	<u>63,542</u>	<u>1,598</u>	<u>(9,745)</u>	<u>55,395</u>	<u>5,496</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 17,173,542</u>	<u>\$ 1,598</u>	<u>\$ (364,745)</u>	<u>\$ 16,810,395</u>	<u>\$ 370,496</u>

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

Note 5: Long-Term Liabilities (Continued)

a. Capital Lease: Fire & Sewer Vacuum Truck

During the 2005-2006 fiscal year, the City entered into two capital leases to procure a new Fire Truck and Sewer Vacuum Truck. Both leases are for a five year term and carry a rate of 3.5%. The Fire Truck was capitalized at a value of \$563,815 and services the City's safety function. The Sewer Vacuum Truck was valued at \$286,666 and services the City's Wastewater enterprise operation. Both vehicles were authorized for purchase in the FY 2005-2006 budget.

Annual debt service requirements to maturity for both capital leases are as follows:

Fiscal Year Ending June 30,	Fire Truck			Sewer Truck		
	Principal	Interest	Total	Principal	Interest	Total
2007	107,801	14,639	122,440	54,702	7,607	62,309
2008	111,568	10,872	122,440	56,614	5,695	62,309
2009	115,467	6,973	122,440	58,592	3,716	62,308
2010	119,502	2,937	122,439	60,640	1,669	62,309
2011	20,319	87	20,406	15,488	89	15,577
Total	<u>\$ 474,657</u>	<u>\$ 35,508</u>	<u>\$ 510,165</u>	<u>\$ 246,036</u>	<u>\$ 18,776</u>	<u>\$ 264,812</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 Avenue Certificates of Participation are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2012-2016	1,270,000	1,441,084	2,711,084
2017-2021	1,515,000	1,154,338	2,669,338
2022-2026	1,805,000	813,051	2,618,051
2027-2031	2,150,000	406,601	2,556,601
2032-2036	975,000	31,655	1,006,655
Total	<u>\$ 8,780,000</u>	<u>\$ 5,527,343</u>	<u>\$ 14,307,343</u>

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

Note 5: Long-Term Liabilities (Continued)

c. Police and Fire Facility Certificates of Participation

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

Construction costs for the project are valued at \$40.7 million (including construction contingency amounts of \$3.6 million). \$12 million of this cost was to be funded from the net proceeds of the Certificates and \$28.7 million will be funded out of available accumulated project reserves. All project funds, both bond financed and city contributed, are being held in trust with a third party safekeeping institution. As of June 30, 2006, the project was substantially complete.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	240,000	574,500	814,500
2008	245,000	569,700	814,700
2009	250,000	564,188	814,188
2010	255,000	557,938	812,938
2011	265,000	550,288	815,288
2012-2016	1,475,000	2,850,797	4,325,797
2017-2021	1,775,000	2,264,044	4,039,044
2022-2026	2,180,000	1,842,785	4,022,785
2027-2031	2,765,000	1,241,875	4,006,875
2032-2036	3,530,000	458,250	3,988,250
Total	<u>\$ 12,980,000</u>	<u>\$ 11,474,365</u>	<u>\$ 24,454,365</u>

d. Compensated Absences

At June 30, 2006, the total citywide accrued liability for compensated absences amounted to \$2,050,839, which is comprised of \$1,772,953 and \$277,886 of vested vacation and sick leave, respectively. \$1,995,444 of this compensated leave liability is related to general government services with the remaining \$55,395 related to business type activities.

e. Workers' Compensation Claims

This is an estimation of the workers' compensation claims that have been incurred but not reported. At June 30, 2006, the long-term portion was \$4,832,702.

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

Note 5: Long-Term Liabilities (Continued)

f. General Liability Claims

This is an estimation of the general liability claims incurred but not reported. At June 30, 2006, the long-term portion was \$609,072.

g. Water and Wastewater Certificates of Participation

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

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2006:

Fiscal Year Ending June 30,	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2007	67,018	147,853	214,871	32,982	72,742	105,724
2008	70,376	144,161	214,537	34,624	70,925	105,549
2009	73,727	140,288	214,015	36,273	69,020	105,293
2010	77,079	136,235	213,314	37,921	67,026	104,947
2011	80,437	131,992	212,429	39,563	64,938	104,501
2012-2016	489,281	583,690	1,072,971	240,719	287,167	527,886
2017-2021	660,195	421,021	1,081,216	324,805	207,135	531,940
2022-2026	894,782	198,357	1,093,139	440,218	97,588	537,806
2027-2031	214,480	6,220	220,700	105,520	3,060	108,580
Total	<u>\$ 2,627,375</u>	<u>\$ 1,909,817</u>	<u>\$ 4,537,192</u>	<u>\$ 1,292,625</u>	<u>\$ 939,601</u>	<u>\$ 2,232,226</u>

h. Metlox Certificate of Participation

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

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

Note 5: Long-Term Liabilities (Continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2012-2016	1,685,000	2,593,395	4,278,395
2017-2021	2,085,000	2,202,432	4,287,432
2022-2026	2,650,000	1,660,800	4,310,800
2027-2031	3,400,000	930,500	4,330,500
2032-2036	1,615,000	122,250	1,737,250
Total	<u>\$ 12,835,000</u>	<u>\$ 10,374,334</u>	<u>\$ 23,209,334</u>

Note 6: Non-City Obligation

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

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

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, 2006, are presented below:

	General Fund	Capital Improvement Fund	Safety and Civic Center Construction Fund	Underground Assessment District Fund	Other Governmental Funds	Total Governmental Funds
Total Fund Equity	\$ 21,579,053	\$ 5,774,085	\$ 3,605,159	\$ 3,259,485	\$ 5,659,610	\$ 39,877,392
Reserved:						
Encumbrances	\$ 291,889		\$ 1,939		\$ 216,987	\$ 510,815
Prepays	45,017					45,017
Long term notes	309,205					309,205
Debt Service	404,204	835,696				1,239,900
Continuing capital projects		3,005,162	3,399,205	281,450	3,331,025	10,016,842
Total Reserved	1,050,315	3,840,858	3,401,144	281,450	3,548,012	12,121,779
Unreserved	20,528,738	1,933,227	204,015	2,978,035	2,111,598	27,755,613
Designated:						
Financial policy	8,338,663					8,338,663
Economic uncertainty	4,000,000					4,000,000
Pension stabilization	1,343,904					1,343,904
Employee leave benefit	2,036,980					2,036,980
Undergrounding				2,978,035		2,978,035
Total Designated	15,719,547	-	-	2,978,035	-	18,697,582
Undesignated	4,809,191	1,933,227	204,015	-	2,111,598	9,058,031

City of Manhattan Beach
Notes to Financial Statements (Continued)

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

The City's Enterprise Fund restrictions and City Council designations at June 30, 2006, are presented below:

	Water Fund	Storm Fund	Waste Water Fund	Refuse Fund	Parking Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
Total Net Assets	<u>\$ 17,896,831</u>	<u>\$ 5,352,683</u>	<u>\$ 5,625,756</u>	<u>\$ 881,743</u>	<u>\$ 7,079,297</u>	<u>\$ 1,585,989</u>	<u>\$ 38,422,299</u>
Restricted:							
Debt service	\$ 227,258		\$ 111,574		\$ 1,061,638		\$ 1,400,470
BID					461,755		461,755
Total Restricted	<u>227,258</u>	<u>-</u>	<u>111,574</u>	<u>-</u>	<u>1,523,393</u>	<u>-</u>	<u>1,862,225</u>
Investment in Net Capital Assets	<u>8,563,603</u>	<u>4,347,891</u>	<u>4,189,307</u>		<u>4,571,231</u>		<u>21,672,032</u>
Unrestricted	<u>9,105,970</u>	<u>1,004,792</u>	<u>1,324,875</u>	<u>881,743</u>	<u>984,673</u>	<u>1,585,989</u>	<u>14,888,042</u>
Designations:							
Continuing CIPs	3,170,910	224,009	723,785		46,703	100,000	4,265,407
Financial policy	<u>2,213,000</u>	<u>91,000</u>	<u>348,000</u>		<u>161,000</u>	<u>101,000</u>	<u>2,914,000</u>
Total Designated	<u>5,383,910</u>	<u>315,009</u>	<u>1,071,785</u>	<u>-</u>	<u>207,703</u>	<u>201,000</u>	<u>7,179,407</u>
After Designations	<u>3,722,060</u>	<u>689,783</u>	<u>253,090</u>	<u>881,743</u>	<u>776,970</u>	<u>1,384,989</u>	<u>7,708,635</u>

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 administrated 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.

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

Note 8: Retirement Plans (Continued)

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 2005-2006 was, 34.814%, 29.56%, and 6.557% 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.

Mandatory Police & Fire Risk Pooling

For fiscal year 2005-2006, the City of Manhattan Beach participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date starting with the June 30, 2003 valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

At the time that the City joined the risk pool, existing unfunded liabilities for both plans were bifurcated and transferred to the PERS "Side Fund". On June 30, 2006, the side funds equaled \$4,906,077 and \$2,361,939 for Police and Fire respectively. These side funds are accounted for separately from ongoing PERS contributions and will be amortized over a ten year period. This amortized amount will become a component of existing and future annual required contributions to fund these plans.

Annual Pension Cost

For fiscal year 2005-2006, the City of Manhattan Beach's annual pension cost was \$3,491,533 for the Police, Fire and Miscellaneous Plans combined, and was equal to the City's required and actual contributions. The City also contributed \$1,462,721 for the 2005-2006, fiscal year on behalf of the employees. The City's payroll for employees covered by the plans for the year ended June 30, 2006, was \$18,407,103. The total payroll for the year was \$22,328,918. The required contributions for fiscal year 2005-2006, were determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: a) 7.75% investment rate of return (net of administrative expenses); b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members and safety members; and c) 2% maximum cost-of-living adjustment not to exceed the consumer price index. Both a) and b) include

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

an inflation component of 3%. 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>
6/30/2004	\$ 749,380	95.35%	\$ (528,698)
6/30/2005	1,622,501	97.42%	(486,837)
6/30/2006	1,912,600	95.17%	(434,535)

Annual Pension Cost and Net Pension Obligation Police Plan

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2006, was as follows:

	<u>Police</u>
Annual required contributions (ARC)	\$ 1,860,298
Interest on net pension obligation (NPO)	(37,730)
Amortization of net pension obligation	<u>90,032</u>
Annual pension cost	1,912,600
Actual contributions made in fiscal year	<u>1,860,298</u>
Increase (Decrease) in NPO	52,302
NPO at Beginning of Year	<u>(486,837)</u>
NPO at End of Year	<u><u>\$ (434,535)</u></u>

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>
6/30/2004	397,223	95.06%	(297,390)
6/30/2005	890,449	97.36%	(273,843)
6/30/2006	1,024,892	97.12%	(244,424)

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

Annual Pension Cost and Net Pension Obligation Fire Plan

The City of Manhattan Beach annual pension cost and change in net pension obligation in fiscal year ending June 30, 2006, was as follows:

	<u>Fire</u>
Annual required contributions (ARC)	\$ 995,473
Interest on net pension obligation (NPO)	(21,223)
Amortization of net pension obligation	<u>50,642</u>
Annual pension cost	1,024,892
Actual contributions made in fiscal year	<u>995,473</u>
Increase (Decrease) in NPO	29,419
NPO at Beginning of Year	<u>(273,843)</u>
NPO at End of Year	<u><u>\$ (244,424)</u></u>

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>
6/30/2004	\$ -	0%	\$ -
6/30/2005	-	0%	-
6/30/2006	637,762	100%	-

	<u>Misc</u>
Annual required contributions (ARC)	\$ 637,762
Interest on net pension obligation (NPO)	-
Amortization of net pension obligation	<u>-</u>
Annual pension cost	637,762
Actual contributions made in fiscal year	<u>637,762</u>
Increase (Decrease) in NPO	-
NPO at Beginning of Year	<u>-</u>
NPO at End of Year	<u><u>\$ -</u></u>

**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
6/30/2003	35,960,101	38,187,633	(2,227,532)	106.2%	8,631,453	-25.81%
6/30/2004	38,772,271	39,784,126	(1,011,855)	102.6%	8,984,800	-11.26%
6/30/2005	41,904,317	42,266,305	(361,988)	100.9%	9,495,383	-3.81%

* 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, 2006, 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. The city does not charge an administrative fee to the benefit plan.

**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
6/30/2001	227,989	208,773	(19,216)	N/A	N/A
6/30/2002	234,488	200,915	(33,573)	N/A	N/A
6/30/2003	224,064	200,915	(23,149)	N/A	N/A
6/30/2004	196,711	196,289	(422)	N/A	N/A
6/30/2005	183,066	196,289	13,223	N/A	N/A
6/30/2006	192,805	192,805	-	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	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, 2006
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%

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.

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

Note 8: Retirement Plans (Continued)

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, 2006, was as follows:

Retirees and beneficiaries receiving benefits:

Management/Confidential	5
Miscellaneous	0
Fire	1
Police	<u>5</u>
Total	<u><u>11</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. The city does not charge an administrative fee to the benefit plan.

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
6/30/2001	580,156	532,507	(47,649)	N/A	N/A
6/30/2002	602,569	516,298	(86,271)	N/A	N/A
6/30/2003	582,400	516,298	(66,102)	N/A	N/A
6/30/2004	499,227	498,155	(1,072)	N/A	N/A
6/30/2005	472,367	498,155	25,788	N/A	N/A
6/30/2006	444,497	444,497	-	N/A	N/A

Ended	Contribution	Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	N/A	N/A

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

Note 8: Retirement Plans (Continued)

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, 2006
Actuarial cost method	Projected Unit Cost Credit Method
Amortization period	N/A plan is dormant
Remaining amortization period	N/A plan is dormant
Asset valuation method	N/A plan is dormant
Actuarial Assumptions:	
Investment rate of return	6.5%
Projected salary increases	N/A plan is dormant
Includes inflation at	N/A plan is dormant
Cost-of-living adjustments	2%

3. Post Retirement Plan for Firefighters

The Post Retirement Plan for Firefighters is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 7, 1996, and is covered under the collective bargaining agreement with the Firefighters Association. The plan covers all firefighters covered under the collective bargaining agreement with the Firefighter's Association of Manhattan Beach. The plan provides for \$300 per month to cover the cost of insurance premiums. Eligibility includes any firefighter who takes a service retirement on and after December 7, 1996, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits or reaches age 65. 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, 2006, was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	29
Fire - Retireees	<u>1</u>
Total	<u><u>30</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. The city does not charge an administrative fee to the benefit plan.

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

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for POST Retirement Health - Firefighters					
Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2001	\$ 164,422	\$ 109,979	\$ (54,443)	N/A	N/A
6/30/2002	124,731	106,873	(17,858)	N/A	N/A
6/30/2003	130,150	106,873	(23,277)	N/A	N/A
6/30/2004	208,679	208,231	(448)	N/A	N/A
6/30/2005	217,113	208,231	(8,882)	N/A	N/A
6/30/2006	243,318	243,318	-	N/A	N/A

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A
6/30/2005	N/A	N/A
6/30/2006	\$ 9,290	N/A

4. Post Retirement Plan for Police

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

The number of participants covered under the plan as of June 30, 2006, was as follows:

Retirees and beneficiaries receiving benefits:	
Fire - Active	58
Fire - Retireees	1
Total	<u>59</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. The city does not charge an administrative fee to the benefit plan.

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

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for POST Retirement Health -Police					
Valuation Date	Value of Assets	Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2005	\$ 695,000	\$ 695,000	\$ -	N/A	N/A
6/30/2006	\$ 738,719	\$ 677,092	\$ (61,627)	N/A	N/A

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

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/2005	N/A	N/A
6/30/2006	\$ 6,273	N/A

5. Detail of Individual Pension Plans

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

Statement of Fiduciary Net Assets

	Supplemental	Single Highest Year	Fire Medical	Police Medical	Total
Assets:					
Cash and Investments	\$ 192,805	\$ 444,497	\$ 243,318	\$ 738,719	\$ 1,619,339
Total Assets	192,805	444,497	243,318	738,719	1,619,339
Net Assets:					
Held in trust for pension benefits and other purposes	\$ 192,805	\$ 444,497	\$ 243,318	\$ 738,719	\$ 1,619,339

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

Note 8: Retirement Plans (Continued)

Statement of Changes in Fiduciary Net Assets

Plan Activity	Supplemental	Single Highest Year	Fire Medical	Police Medical	Total
Additions:					
Contribution	\$ 25,326	\$ 3,198	\$ 18,493	\$ 6,273	\$ 53,290
Interest	9,269	23,697	11,325	37,751	82,042
Total Additions	34,595	26,895	29,818	44,024	135,332
Deductions:					
Benefits	24,856	54,765	3,613	305	83,539
Changes in net assets	9,739	(27,870)	26,205	43,719	51,793
Net Assets Held in Trust for Pension Benefits:					
Opening balance July 1, 2005	183,066	472,367	217,113	695,000	1,567,546
Ending balance June 30, 2006	\$ 192,805	\$ 444,497	\$ 243,318	\$ 738,719	\$ 1,619,339

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

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

The PARS plan is a defined contribution pension 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 \$1,918,666. The amount of employee contribution was \$71,950, and employer contribution was \$71,950.

Note 9: Post-Employment Health Insurance

In addition to the pension benefits described in Note 8, the City provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees. To qualify, a retiree must meet the criteria for PERS retirement. At June 30, 2006, there were 4 participants eligible to receive benefits.

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 2005-2006 for this benefit was \$7,390.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 10: Risk Management

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

ICRMA is considered a self-sustaining risk pool. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2006, the amount of these liabilities was \$5,441,773. The amount represents an estimate of \$3,226,811 for reported claims through June 30, 2006, and \$2,214,962 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, 2006, resulted from the following:

<u>Year</u>	<u>Liability Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims and Payments</u>	<u>Liability End of Year</u>
2005	\$ 4,066,828	\$ 2,434,949	\$ (1,100,886)	\$ 5,400,891
2006	5,400,891	1,377,098	(1,336,216)	5,441,773

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

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

The ICRMA has published its own financial report for the year ended June 30, 2006, which can be obtained from Independent Cities Risk Management Authority, 14156 Magnolia Park, Sherman Oaks, California.

City of Manhattan Beach
Notes to Financial Statements (Continued)

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, 2006, was 20.14%.

Summarized audited financial information for SBRPCA at June 30, 2005*, is presented below:

Balance Sheet

Assets	<u>\$ 11,425,352</u>
Liabilities to member cities (all current)	\$ 867,297
Bonds payable	8,700,000
Fund equity	<u>1,858,055</u>
Total Liabilities and Fund Equity	<u>\$ 11,425,352</u>

Revenues and Expenditures

Revenues	\$ 6,520,131
Expenditures	<u>(6,044,775)</u>
Excess of Expenditures Over Revenues	475,356
Fund equity - July 1, 2004	
Contributed capital	<u>1,382,699</u>
Fund equity - June 30, 2005	<u>\$ 1,858,055</u>

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

b. Jointly Governed Organization

Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force

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

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

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

Summarized audited financial information for L.A. IMPACT at June 30, 2005*, is presented below:

Statement of Net Assets

Current assets	\$ 3,202,270
Capital assets	100,203
Total Assets	<u>3,302,473</u>
Liabilities to member cities (all current)	<u>945,029</u>
Total Net Assets	<u><u>\$ 2,357,444</u></u>

Revenues and Expenditures

Revenues	\$ 4,355,020
Expenditures	<u>(3,893,694)</u>
Excess of Expenditures Over Revenues	461,326
Fund equity - June 30, 2004	<u>1,896,118</u>
Fund equity - June 30, 2005	<u><u>\$ 2,357,444</u></u>

*Most current information available.

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

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, 2006, was \$1,299,484.

As of June 30, 2006, the following balances of assets and liabilities were present:

	Market Value <u>401(a) Plan</u>
Total Assets	<u>\$ 1,299,484</u>
Liability to Plan Participants	<u>\$ 1,299,484</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, 2006, was \$309,205.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 13: Related Party Transactions (Continued)

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 remaining balance of this note receivable was paid off in full in the current fiscal year.

Note 14: Commitments and Contingencies

Contingencies:

There are certain lawsuits pending against the City that seek monetary damages. The outcome and financial effect of these matters on the City cannot presently be determined, and no provision for any potential liability or losses has been included in the basic financial statements as of June 30, 2006. However, City management expects such amounts, if any, to be immaterial.

Commitments & Contracts:

Construction Management Services Contract - Police and Fire Facility

The City of Manhattan Beach entered into a contract with Vanir Construction, Inc. to provide construction management services for the Police and Fire facility project. The original contract was for an amount not to exceed \$1,420,592. In October 2005, the City approved a contract amendment increasing the total contract value for these services to \$1,688,072. Subsequent to the date of this report, the contract was closed-out within the resources provided for within the project budget.

Architect Contract - Police and Fire Facility

The City of Manhattan Beach entered into a contract with Hellmuth, Obata & Kassabaum, Inc. to provide architectural services for the Police and Fire facility project. The original contract was for an amount not to exceed \$2,475,234. In October 2005, the City approved a contract amendment increasing the total contract value to \$2,575,530. Subsequent to the date of this report, the contract was closed-out within the resources provided for within the project budget.

Construction Contract – Strand Lighting & Walkway Improvements

The City of Manhattan Beach entered into a contract with Pazargad Engineering Construction, Inc. for improvements to the beach front strand walkway. The contract was for \$3,543,914. As of the date of the report substantial progress has been made on these improvements and project is expected to be completed in FY06-07.

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.

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 15: Operating Agreement (Continued)

The current year payment was \$145,699. The City has committed to the following future lease payments:

Fiscal Year Ending June 30	Amount
2007	147,636
2008	149,478
2009	145,836
2010	147,464
2011	124,410
2012-2016	521,703
2017-2021	525,875
2022-2026	534,177
2027-2031	397,597
Total	<u>\$ 2,694,176</u>

Note 16: Fund Balance Restatement

Major Governmental Fund:	
General Fund - Beginning Balance as originally Stated	\$ 17,440,250
Prior year liabilities overstated	<u>165,882</u>
General Fund - Beginning balance Restated	<u>\$ 17,606,132</u>

In prior years, short term accrued leave liabilities were recorded in the General Fund to reflect vacation and sick pay leave balances on the books at year end. Upon further technical review this current year, it has been determined that the presentation of the current liability is only appropriate on a GASB 34 government-wide presentation. This change in treatment results in a reduction of this liability within the modified-accrual based governmental statements. This liability remains recorded within the General Long Term Debt group of accounts and is reflected in the government wide consolidated statements.

Note 17: Subsequent Events

In the subsequent period, the City issued additional limited obligation improvement bonds for Underground Assessment Districts 05-2 and 05-6. The bonds were issued August 2, 2006, in the amounts of \$4,525,000 for district 05-2 and \$4,682,823 for district 05-6. As underground districts continue to form, the City expects like bonds in the coming years. Such bonds are not secured by the general taxing power of the City of Manhattan Beach and the City has not pledged credit for payment thereof. Because these bonds are not City obligations, the related liabilities are not reflected in the financial statements.

CITY OF MANHATTAN BEACH

JUNE 30, 2006

NONMAJOR FUNDS

Special Revenue Fund Description

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

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

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

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

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

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

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

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	<u>Special Revenue Funds</u>			
	<u>Street Lighting and Landscape</u>	<u>Gas Tax</u>	<u>Asset Forfeiture</u>	<u>Public Safety Grants</u>
Assets:				
Pooled cash and investments	\$ 79,407	\$ 2,785,231	\$ 731,739	\$ 205,770
Receivables:				
Accounts	24,342	-	-	-
Due from other governments	-	110,221	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 103,749</u>	<u>\$ 2,895,452</u>	<u>\$ 731,739</u>	<u>\$ 205,770</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 26,919	\$ 39,251	\$ 462	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>26,919</u>	<u>39,251</u>	<u>462</u>	<u>-</u>
Fund Balances:				
Reserved:				
Reserved for encumbrances	1,125	-	-	207,457
Reserved for continuing projects	-	2,152,021	-	-
Undesignated	75,705	704,180	731,277	(1,687)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>76,830</u>	<u>2,856,201</u>	<u>731,277</u>	<u>205,770</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Equity	<u>76,830</u>	<u>2,856,201</u>	<u>731,277</u>	<u>205,770</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 103,749</u>	<u>\$ 2,895,452</u>	<u>\$ 731,739</u>	<u>\$ 205,770</u>

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds			Total Governmental Funds
	Prop A	Prop C	AB 2766	
Assets:				
Pooled cash and investments	\$ 365,575	\$ 1,274,902	\$ 143,556	\$ 5,586,180
Receivables:				
Accounts	-	-	-	24,342
Due from other governments	-	-	11,522	121,743
Total Assets	\$ 365,575	\$ 1,274,902	\$ 155,078	\$ 5,732,265
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 6,023	\$ -	\$ -	\$ 72,655
Total Liabilities	6,023	-	-	72,655
Fund Balances:				
Reserved:				
Reserved for encumbrances	8,405	-	-	216,987
Reserved for continuing projects	-	1,179,004	-	3,331,025
Undesignated	351,147	95,898	155,078	2,111,598
Total Fund Balances	359,552	1,274,902	155,078	5,659,610
Total Fund Equity	359,552	1,274,902	155,078	5,659,610
Total Liabilities and Fund Balances	\$ 365,575	\$ 1,274,902	\$ 155,078	\$ 5,732,265

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Street Lighting and Landscape	Gas Tax	Asset Forfeiture	Public Safety Grants
Revenues:				
Taxes and assessments	\$ 374,696	\$ -	\$ -	\$ -
Intergovernmental	-	830,182	39,622	100,000
Charges for services	-	-	-	-
Use of money and property	3,013	80,336	21,796	5,130
Miscellaneous	47,475	-	-	-
Total Revenues	425,184	910,518	61,418	105,130
Expenditures:				
Current:				
Public safety	-	-	40,195	-
Culture and recreation	-	-	-	-
Public works	463,312	833,528	-	-
Total Expenditures	463,312	833,528	40,195	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,128)	76,990	21,223	105,130
Other Financing Sources (Uses):				
Transfers out	-	-	-	-
Total Other Financing Sources	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(38,128)	76,990	21,223	105,130
Fund Balances, Beginning of Year	114,958	2,779,211	710,054	100,640
Fund Balances, End of Year	\$ 76,830	\$ 2,856,201	\$ 731,277	\$ 205,770

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			Total Governmental Funds
	Prop A	Prop C	AB 2766	
Revenues:				
Taxes and assessments	\$ 590,224	\$ 507,622	\$ -	\$ 1,472,542
Intergovernmental	-	-	43,825	1,013,629
Charges for services	6,357	-	-	6,357
Use of money and property	11,328	39,252	3,361	164,216
Miscellaneous	-	-	-	47,475
Total Revenues	607,909	546,874	47,186	2,704,219
Expenditures:				
Current:				
Public safety	-	-	-	40,195
Culture and recreation	549,772	-	-	549,772
Public works	9,804	338,587	-	1,645,231
Total Expenditures	559,576	338,587	-	2,235,198
Excess (Deficiency) of Revenues Over (Under) Expenditures	48,333	208,287	47,186	469,021
Other Financing Sources (Uses):				
Transfers out	-	(303,116)	-	(303,116)
Total Other Financing Sources				
Total Other Financing Sources (Uses)	-	(303,116)	-	(303,116)
Net Change in Fund Balances	48,333	(94,829)	47,186	165,905
Fund Balances, Beginning of Year	311,219	1,369,731	107,892	5,493,705
Fund Balances, End of Year	\$ 359,552	\$ 1,274,902	\$ 155,078	\$ 5,659,610

CITY OF MANHATTAN BEACH

**BUDGETARY COMPARISON SCHEDULE
 STREET LIGHTING AND LANDSCAPE
 YEAR ENDED JUNE 30, 2006**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 386,061	\$ 386,061	\$ 374,696	\$ (11,365)
Use of money and property	4,000	4,000	3,013	(987)
Miscellaneous	47,475	47,475	47,475	-
Total Resources	437,536	437,536	425,184	(12,352)
Charges to Appropriation (Outflow):				
Public works	450,958	454,818	463,312	(8,494)
Total Charges to Appropriation	450,958	454,818	463,312	(8,494)
Net Change in Fund Balances	(13,422)	(17,282)	(38,128)	(20,846)
Fund Balance, Beginning of Year	114,958	114,958	114,958	-
Fund Balance, End of Year	\$ 101,536	\$ 97,676	\$ 76,830	\$ (20,846)

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 685,000	\$ 685,000	\$ 830,182	\$ 145,182
Use of money and property	43,500	43,500	80,336	36,836
Total Resources	728,500	728,500	910,518	182,018
Charges to Appropriation (Outflow):				
Public works	756,616	3,015,038	833,528	2,181,510
Total Charges to Appropriation	756,616	3,015,038	833,528	2,181,510
Net Change in Fund Balance	(28,116)	(2,286,538)	76,990	2,363,528
Fund Balance, Beginning of Year	2,779,211	2,779,211	2,779,211	-
Fund Balance, End of Year	\$ 2,751,095	\$ 492,673	\$ 2,856,201	\$ 2,363,528

CITY OF MANHATTAN BEACH

**BUDGETARY COMPARISON SCHEDULE
 ASSET FORFEITURE
 YEAR ENDED JUNE 30, 2006**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ -	\$ -	\$ 39,622	\$ 39,622
Use of money and property	19,000	19,000	21,796	2,796
Total Resources	19,000	19,000	61,418	42,418
Charges to Appropriation (Outflow):				
Public safety	321,164	321,164	40,195	280,969
Total Charges to Appropriation	321,164	321,164	40,195	280,969
Net Change in Fund Balances	(302,164)	(302,164)	21,223	323,387
Fund Balance, Beginning of Year	710,054	710,054	710,054	-
Fund Balance, End of Year	\$ 407,890	\$ 407,890	\$ 731,277	\$ 323,387

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PUBLIC SAFETY GRANTS
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ -	\$ 100,000	\$ 100,000	\$ -
Use of money and property	-	-	5,130	5,130
Total Resources	-	100,000	105,130	5,130
Charges to Appropriation (Outflow):				
Public safety	-	207,534	-	207,534
Total Charges to Appropriation	-	207,534	-	207,534
Net Change in Fund Balance	-	(107,534)	105,130	212,664
Fund Balance, Beginning of Year	100,640	100,640	100,640	-
Fund Balance, End of Year	\$ 100,640	\$ (6,894)	\$ 205,770	\$ 212,664

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION A
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 480,700	\$ 480,700	\$ 590,224	\$ 109,524
Charges for services	8,700	8,700	6,357	(2,343)
Use of money and property	7,200	7,200	11,328	4,128
Total Resources	496,600	496,600	607,909	111,309
Charges to Appropriation (Outflow):				
Culture and recreation	673,185	758,185	549,772	208,413
Public works	25,000	25,000	9,804	15,196
Total Charges to Appropriation	698,185	783,185	559,576	223,609
Net Change in Fund Balance	(201,585)	(286,585)	48,333	334,918
Fund Balance, Beginning of Year	311,219	311,219	311,219	-
Fund Balance, End of Year	\$ 109,634	\$ 24,634	\$ 359,552	\$ 334,918

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION C
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 410,000	\$ 410,000	\$ 507,622	\$ 97,622
Use of money and property	33,600	33,600	39,252	5,652
Total Resources	443,600	443,600	546,874	103,274
Charges to Appropriation (Outflow):				
Public works	4,418	1,702,953	338,587	1,364,366
Total Charges to Appropriation	4,418	1,702,953	338,587	1,364,366
Other Financing Sources:				
Transfers out	-	-	(303,116)	303,116
Total Other Financing Sources	-	-	(303,116)	303,116
Net Change in Fund Balance	439,182	(1,259,353)	(94,829)	(957,976)
Fund Balance, Beginning of Year	1,369,731	1,369,731	1,369,731	-
Fund Balance, End of Year	\$ 1,808,913	\$ 110,378	\$ 1,274,902	\$ 1,467,640

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE

AB 2766

YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 42,820	\$ 42,820	\$ 43,825	\$ 1,005
Use of money and property	2,530	2,530	3,361	831
Total Resources	45,350	45,350	47,186	1,836
Charges to Appropriation (Outflow):				
Public works	2,000	2,000	-	2,000
Total Charges to Appropriation	2,000	2,000	-	2,000
Net Change in Fund Balance	43,350	43,350	47,186	3,836
Fund Balance, Beginning of Year	107,892	107,892	107,892	-
Fund Balance, End of Year	\$ 151,242	\$ 151,242	\$ 155,078	\$ 3,836

CITY OF MANHATTAN BEACH

**BUDGETARY COMPARISON SCHEDULE
 CAPITAL IMPROVEMENT
 YEAR ENDED JUNE 30, 2006**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes and assessments	\$ 436,560	\$ 436,560	\$ 470,732	\$ 34,172
Licenses and permits	22,016	22,016	116,288	94,272
Intergovernmental	-	-	252,903	252,903
Charges for services	531,041	531,041	558,266	27,225
Use of money and property	7,000	7,000	54,633	47,633
Fines and forfeitures	130,810	130,810	107,992	(22,818)
Total Resources	1,127,427	1,127,427	1,560,814	433,387
Charges to Appropriation (Outflow):				
General government	-	480,000	-	480,000
Public safety	578,500	578,500	577,856	644
Culture and recreation	110,000	129,013	10,000	119,013
Public works	1,500,000	5,869,636	3,291,942	2,577,694
Total Charges to Appropriation	2,188,500	7,057,149	3,879,798	3,177,351
Other Financing Sources:				
Transfers in	-	-	705,000	705,000
Transfers out	-	-	(37,000)	37,000
Total Other Financing Sources	-	-	668,000	742,000
Net Change in Fund Balance	(1,061,073)	(5,929,722)	(1,650,984)	4,352,738
Fund Balance, Beginning of Year	7,425,069	7,425,069	7,425,069	-
Fund Balance, End of Year	\$ 6,363,996	\$ 1,495,347	\$ 5,774,085	\$ 4,352,738

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 SAFETY AND CIVIC CENTER CONSTRUCTION
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Use of money and property	\$ 250,000	\$ 250,000	\$ 294,962	\$ 44,962
Other	-	-	87,235	87,235
Total Resources	250,000	250,000	382,197	132,197
Charges to Appropriation (Outflow):				
Public works	5,469,510	17,248,578	13,849,373	3,399,205
Total Charges to Appropriation	5,469,510	17,248,578	13,849,373	3,399,205
Other Financing Sources:				
Transfers to other funds	-	-	(475,000)	475,000
Total Other Financing Sources	-	-	(475,000)	475,000
Net Change in Fund Balance	(5,219,510)	(16,998,578)	(13,942,176)	4,006,402
Fund Balance, Beginning of Year	17,547,335	17,547,335	17,547,335	-
Fund Balance, End of Year	\$ 12,327,825	\$ 548,757	\$ 3,605,159	\$ 4,006,402

CITY OF MANHATTAN BEACH

BUDGETARY COMPARISON SCHEDULE
 UNDERGROUND ASSESSMENT DISTRICT
 YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Contributions from property owners	\$ -	\$ -	\$ 3,147,739	\$ 3,147,739
Use of money and property	21,608	21,608	24,611	3,003
Total Resources	21,608	21,608	3,172,350	3,150,742
Charges to Appropriation (Outflow):				
Public works	-	-	574,267	(574,267)
Total Charges to Appropriation	-	-	574,267	(574,267)
Net Change in Fund Balance	21,608	21,608	2,598,083	2,576,475
Fund Balance, Beginning of Year	661,402	661,402	661,402	-
Fund Balance, End of Year	\$ 683,010	\$ 683,010	\$ 3,259,485	\$ 2,576,475

CITY OF MANHATTAN BEACH

JUNE 30, 2006

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.

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 JUNE 30, 2006

	<u>County Parking Lots</u>	<u>State Pier and Parking Lot</u>	<u>Totals</u>
Assets:			
Current:			
Cash and investments	\$ 112,084	\$ 1,597,612	\$ 1,709,696
Total Current Assets	<u>112,084</u>	<u>1,597,612</u>	<u>1,709,696</u>
Total Assets	<u>\$ 112,084</u>	<u>\$ 1,597,612</u>	<u>\$ 1,709,696</u>
Liabilities and Net Assets:			
Liabilities:			
Current:			
Accounts payable	\$ 109,755	\$ 13,404	\$ 123,159
Deposits payable	548	-	548
Total Current Liabilities	<u>110,303</u>	<u>13,404</u>	<u>123,707</u>
Total Liabilities	<u>110,303</u>	<u>13,404</u>	<u>123,707</u>
Net Assets:			
Unrestricted	<u>1,781</u>	<u>1,584,208</u>	<u>1,585,989</u>
Total Net Assets	<u>1,781</u>	<u>1,584,208</u>	<u>1,585,989</u>
Total Liabilities and Net Assets	<u>\$ 112,084</u>	<u>\$ 1,597,612</u>	<u>\$ 1,709,696</u>

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	County Parking Lots	State Pier and Parking Lot	Totals
Operating Revenues:			
Sales and service charges	\$ 303,928	\$ 315,423	\$ 619,351
Miscellaneous	79	12,590	12,669
Total Operating Revenues	304,007	328,013	632,020
Operating Expenses:			
Salaries and wages	17,575	20,260	37,835
Employee benefits	5,495	5,936	11,431
Contract and professional services	36,943	101,756	138,699
Materials and services	10,824	17,683	28,507
Utilities	2,281	35,953	38,234
Administrative service charges	16,706	16,706	33,412
Leases and rents	167,160	-	167,160
Total Operating Expenses	256,984	198,294	455,278
Operating Income (Loss)	47,023	129,719	176,742
Nonoperating Revenues (Expenses):			
Interest revenue	-	44,006	44,006
Total Nonoperating Revenues (Expenses)	-	44,006	44,006
Income (Loss) Before Transfers	47,023	173,725	220,748
Transfers out	(48,000)	-	(48,000)
Changes in Net Assets	(977)	173,725	172,748
Net Assets:			
Beginning of Fiscal Year	2,758	1,410,483	1,413,241
End of Fiscal Year	\$ 1,781	\$ 1,584,208	\$ 1,585,989

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006

	County Parking Lot	State Pier and Parking Lot	Totals
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 303,928	\$ 317,423	\$ 621,351
Cash paid to supplies for good and services	(226,057)	(145,383)	(371,440)
Cash paid to employees for services	(22,038)	(25,168)	(47,206)
Cash paid for interfund services used	(16,690)	(13,011)	(29,701)
	<u>39,143</u>	<u>133,861</u>	<u>173,004</u>
Net Cash Provided (Used) by Operating Activities			
Cash Flows from Noncapital Financing Activities:			
Cash transfer to other funds	(48,000)	-	(48,000)
	<u>(48,000)</u>	<u>-</u>	<u>(48,000)</u>
Net Cash Provided (Used) by Noncapital Financing Activities			
Cash Flows from Investing Activities:			
Interest received	-	44,006	44,006
	<u>-</u>	<u>44,006</u>	<u>44,006</u>
Net Cash Provided (Used) by Investing Activities			
Net Increase (Decrease) in Cash and Cash Equivalents	(8,857)	177,867	169,010
Cash and Cash Equivalents at Beginning of Year	120,941	1,419,745	1,540,686
Cash and Cash Equivalents at End of Year	<u>\$ 112,084</u>	<u>\$ 1,597,612</u>	<u>\$ 1,709,696</u>
Reconciliation of Operating Income to Net Cash			
Operating income (loss)	\$ 47,023	\$ 129,719	\$ 176,742
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
(Increase) decrease in prepaid expense	-	128	128
Increase (decrease) in accounts payable	(7,880)	4,014	(3,866)
	<u>(7,880)</u>	<u>4,142</u>	<u>(3,738)</u>
Total Adjustments	<u>(7,880)</u>	<u>4,142</u>	<u>(3,738)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,143</u>	<u>\$ 133,861</u>	<u>\$ 173,004</u>

CITY OF MANHATTAN BEACH

JUNE 30, 2006

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.

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2006

	Insurance Reserve	Information Systems	Fleet Management	Building Maintenance and Operations	Total
Assets:					
Current:					
Cash and investments	\$ 5,249,401	\$ 509,298	\$ 1,713,289	\$ 39,308	\$ 7,511,296
Inventories	-	-	-	114,339	114,339
Total Current Assets	5,249,401	509,298	1,713,289	153,647	7,625,635
Capital assets-net of accumulated depreciation	-	-	2,961,235	-	2,961,235
Total Assets	\$ 5,249,401	\$ 509,298	\$ 4,674,524	\$ 153,647	\$ 10,586,870
Liabilities and Fund Equity:					
Liabilities:					
Current:					
Accounts payable	\$ 9,753	\$ 33,414	\$ 36,736	\$ 37,410	\$ 117,313
Workers' compensation claims	2,958,656	-	-	-	2,958,656
General liability claims	268,155	-	-	-	268,155
Lease payable - current	-	-	162,503	-	162,503
Total Current Liabilities	3,236,564	33,414	199,239	37,410	3,506,627
Noncurrent:					
Workers' compensation claims	1,874,046	-	-	-	1,874,046
General Liability Claims	340,916	-	-	-	340,916
Lease Payable	-	-	558,191	-	558,191
Total Noncurrent Liabilities	2,214,962	-	558,191	-	2,773,153
Total Liabilities	5,451,526	33,414	757,430	37,410	6,279,780
Net Assets:					
Invested in capital assets, net of related debt	-	-	2,240,541	-	2,240,541
Unrestricted	(202,125)	475,884	1,676,553	116,237	2,066,549
Total Net Assets	(202,125)	475,884	3,917,094	116,237	4,307,090
Total Liabilities and Net Assets	\$ 5,249,401	\$ 509,298	\$ 4,674,524	\$ 153,647	\$ 10,586,870

CITY OF MANHATTAN BEACH

**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2006**

	Insurance Reserve	Information Systems	Fleet Management	Building Maintenance and Operations	Totals
Operating Revenues:					
Sales and service charges	\$ 2,863,404	\$ 800,592	\$ 1,696,494	\$ 797,599	\$ 6,158,089
Miscellaneous	28,310	-	97,048	743	126,101
Total Operating Revenues	2,891,714	800,592	1,793,542	798,342	6,284,190
Operating Expenses:					
Salaries and wages	132,082	321,156	209,034	170,284	832,556
Employee benefits	49,474	76,818	176,210	49,228	351,730
Contract and professional services	19,168	48,267	79,001	197,976	344,412
Material and services	2,456,533	452,231	475,677	208,473	3,592,914
Utilities	7,718	2,988	-	142,052	152,758
Administrative service charges	59,206	-	52,288	27,134	138,628
Leases and rents	-	-	6,000	-	6,000
Depreciation	-	-	414,130	-	414,130
Total Operating Expenses	2,724,181	901,460	1,412,340	795,147	5,833,128
Operating Income (Loss)	167,533	(100,868)	381,202	3,195	451,062
Non-Operating Revenues (Expenses):					
Interest expense	-	-	(19,476)	-	(19,476)
Total Non-Operating Revenues	-	-	(19,476)	-	(19,476)
Change in Net Assets	167,533	(100,868)	361,726	3,195	431,586
Net Assets:					
Beginning of Fiscal Year	(369,658)	576,752	3,555,368	113,042	3,875,504
Change in Net Assets	167,533	(100,868)	361,726	3,195	431,586
End of Fiscal Year	\$ (202,125)	\$ 475,884	\$ 3,917,094	\$ 116,237	\$ 4,307,090

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2006

	Insurance Reserve	Information Systems	Fleet Management
Cash Flows from Operating Activities:			
Cash received from customers and users	\$ 70,641	\$ -	\$ 104,831
Cash received from interfund service provided	2,897,883	800,612	1,640,678
Cash payments to supplies for goods and services	(2,146,243)	(524,881)	(480,222)
Cash payments to employees for services	(172,140)	(382,134)	(271,919)
Cash payments for interfund services used	(432,549)	(19,505)	(188,618)
Net Cash Provided (Used) by Operating Activities	217,592	(125,908)	804,750
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	-	-	(772,120)
Principal paid on capital debt			(129,288)
Interest paid on capital debt			(19,476)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(920,884)
Net Increase (Decrease) in Cash and Cash Equivalents	217,592	(125,908)	(116,134)
Cash and Cash Equivalents at Beginning of Year	5,031,809	635,206	1,829,423
Cash and Cash Equivalents at End of Year	\$ 5,249,401	\$ 509,298	\$ 1,713,289
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 167,533	\$ (100,868)	\$ 381,202
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	-	414,130
(Increase) decrease in inventories	-	-	-
(Increase) decrease in prepaid expense	-	1,400	-
Increase (decrease) in accounts payable	9,178	(26,440)	9,418
Increase (decrease) in claims payable	40,881	-	-
Total Adjustments	50,059	(25,040)	423,548
Net Cash Provided (Used) by Operating Activities	\$ 217,592	\$ (125,908)	\$ 804,750

CITY OF MANHATTAN BEACH

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2006

	Building Maintenance	Totals
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 1,455	\$ 176,927
Cash received from interfund service provided	906,666	6,245,839
Cash payments to supplies for goods and services	(635,116)	(3,786,462)
Cash payments to employees for services	(209,733)	(1,035,926)
Cash payments for interfund services used	(70,387)	(711,059)
	<u>(7,115)</u>	<u>889,319</u>
Net Cash Provided (Used) by Operating Activities	(7,115)	889,319
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	-	(772,120)
Principal paid on capital debt	-	(129,288)
Interest paid on capital debt	-	(19,476)
	<u>-</u>	<u>(920,884)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(920,884)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,115)	(31,565)
Cash and Cash Equivalents at Beginning of Year	46,423	7,542,861
Cash and Cash Equivalents at End of Year	\$ 39,308	\$ 7,511,296
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 3,195	\$ 451,062
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	-	414,130
(Increase) decrease in inventories	(21,390)	(21,390)
(Increase) decrease in prepaid expense	6,882	8,282
Increase (decrease) in accounts payable	4,198	(3,646)
Increase (decrease) in claims payable	-	40,881
	<u>(10,310)</u>	<u>438,257</u>
Total Adjustments	(10,310)	438,257
Net Cash Provided (Used) by Operating Activities	\$ (7,115)	\$ 889,319

CITY OF MANHATTAN BEACH

JUNE 30, 2006

AGENCY FUNDS

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

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

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

CITY OF MANHATTAN BEACH

COMBINING BALANCE SHEET
 ALL AGENCY FUNDS
 JUNE 30, 2006

	Special Assessment Redemption Fund	Special Deposits	Totals
Assets:			
Cash And investments	\$ 241,807	\$ 277,848	\$ 519,655
Receivables:			
Accounts	17,778	-	17,778
Restricted assets:			
Cash with fiscal agent	282,814	1,382,571	1,665,385
Total Assets	\$ 542,399	\$ 1,660,419	\$ 2,202,818
Liabilities:			
Accounts payable	\$ -	\$ 10,000	\$ 10,000
401(a) plan deposits	-	1,299,484	1,299,484
Art development fees	-	266,859	266,859
Other deposits	-	84,076	84,076
Due to bondholders	542,399	-	542,399
Total Liabilities	\$ 542,399	\$ 1,660,419	\$ 2,202,818

CITY OF MANHATTAN BEACH

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Special Assessment Redemption Fund</u>				
Assets:				
Cash and investments	\$ 190,537	\$ 320,768	\$ 269,498	\$ 241,807
Accounts receivable	5,329	17,778	5,329	17,778
Restricted assets:				
Cash with fiscal agent	281,449	281,520	280,155	282,814
Total Assets	\$ 477,315	\$ 620,066	\$ 554,982	\$ 542,399
Liabilities:				
Accounts payable	\$ -	\$ 290,829	\$ 290,829	\$ -
Due to bondholders	477,315	884,464	819,380	542,399
Total Liabilities	\$ 477,315	\$ 1,175,293	\$ 1,110,209	\$ 542,399
<u>Special Deposits</u>				
Assets:				
Cash and investments	\$ 985,978	\$ 597,423	\$ 1,305,553	\$ 277,848
Restricted assets:				
Cash with fiscal agent	1,058,746	323,825	-	1,382,571
Total Assets	\$ 2,044,724	\$ 921,248	\$ 1,305,553	\$ 1,660,419
Liabilities:				
Accounts payable	\$ -	\$ 26	\$ 26	\$ -
Due to other agencies	10,000	-	-	10,000
401(a) plan deposits	1,046,659	252,851	26	1,299,484
Utility development deposit	619,874	300,000	919,874	-
Art development fees	286,829	34,215	54,185	266,859
Other deposits	81,362	264,209	261,495	84,076
Total Liabilities	\$ 2,044,724	\$ 851,301	\$ 1,235,606	\$ 1,660,419
<u>Totals</u>				
Assets:				
Cash and investments	\$ 1,176,515	\$ 918,191	\$ 1,575,051	\$ 519,655
Accounts receivable	5,329	17,778	5,329	17,778
Restricted assets:				
Cash with fiscal agent	1,340,195	605,345	280,155	1,665,385
Total Assets	\$ 2,522,039	\$ 1,541,314	\$ 1,860,535	\$ 2,202,818
Liabilities:				
Accounts payable	\$ -	\$ 290,855	\$ 290,855	\$ -
Due to other agencies	10,000	-	-	10,000
401(a) plan deposits	1,046,659	252,851	26	1,299,484
Utility development deposit	619,874	300,000	919,874	-
Art development fees	286,829	34,215	54,185	266,859
Other deposits	81,362	264,209	261,495	84,076
Due to bondholders	477,315	884,464	819,380	542,399
Total Liabilities	\$ 2,522,039	\$ 2,026,594	\$ 2,345,815	\$ 2,202,818