

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



Prepared by the Finance Department

Bruce Moe, Finance Director

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

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Robert C. Lance
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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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manhattan Beach's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Manhattan Beach as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004 on our consideration of the City of Manhattan Beach's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants.

The management's discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.





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

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

Lance, Soll & Lunghard, LLP

November 12, 2004

STATEMENT OF NET ASSETS
JUNE 30, 2004

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

CITY OF MANHATTAN BEACH

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

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

General Revenues:

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Business licenses taxes

Other taxes

Motor vehicle in lieu

Use of money and property

Other

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

Net Assets at End of Year

See Notes to Financial Statements

Exhibit B

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

CITY OF MANHATTAN BEACH

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

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

Exhibit C

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



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

Fund balances of governmental funds	\$ 49,297,942
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	73,700,023
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(10,820,362)
Long-term notes receivables are not current available resources and, therefore, are not reported in the governmental funds.	744,177
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, fleet management, building maintenance and operation, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	<u>4,371,561</u>
Net assets of governmental activities	<u><u>\$ 117,293,341</u></u>

CITY OF MANHATTAN BEACH

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

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

Exhibit E

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

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

Net change in fund balances - total governmental funds	\$	686,098
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below capitalization threshold. This activity is reconciled as follows:</p>		
Cost of assets capitalized		7,985,698
Depreciation expense		(1,483,266)
<p>Revenue from principal payment received from notes receivable are recorded as revenue in the governmental funds. However, principal payments from notes receivable are eliminated from the statement of activities. This amount represents the change in the note receivables for this fiscal year.</p>		
		(32,585)
<p>The statement of activities reports a gain or loss on the sale of the asset based on the proceeds received and the net book value at the time of the sale. The loss on disposal of the asset is calculated as follows:</p>		
Cost of assets disposed		(687,839)
Accumulated depreciation of the assets disposed		434,580
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		295,566
<p>Compensated absences and supplemental leave expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(31,295)
<p>Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.</p>		
		<u>(192,940)</u>
Change in net assets of governmental activities	\$	<u>6,974,017</u>

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

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

CITY OF MANHATTAN BEACH

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

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

See Notes to Financial Statements

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

CITY OF MANHATTAN BEACH

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

	<u>Water</u>	<u>Storm Water</u>	<u>Wastewater</u>
Operating Revenues:			
Sales and service charges	\$ 6,847,731	\$ 377,119	\$ 1,008,980
Miscellaneous	-	-	-
Total Operating Revenues	<u>6,847,731</u>	<u>377,119</u>	<u>1,008,980</u>
Operating Expenses:			
Salaries and wages	506,772	10,907	109,325
Employee benefits	165,807	41,316	20,178
Contract and professional services	3,348,580	14,134	28,871
Materials and services	519,270	6,737	96,815
Utilities	171,550	-	19,081
Administrative service charges	969,600	48,348	498,924
Leases and rents	-	-	-
Depreciation	263,694	122,718	139,105
Total Operating Expenses	<u>5,945,273</u>	<u>244,160</u>	<u>912,299</u>
Operating Income (Loss)	<u>902,458</u>	<u>132,959</u>	<u>96,681</u>
Nonoperating Revenues (Expenses):			
Intergovernmental	-	198,959	-
Interest revenue	101,363	11,872	13,888
Interest expense	(164,691)	-	(81,027)
Total Nonoperating Revenues (Expenses)	<u>(63,328)</u>	<u>210,831</u>	<u>(67,139)</u>
Income (Loss) Before Transfers	839,130	343,790	29,542
Transfers out	-	-	-
Changes in Net Assets	<u>839,130</u>	<u>343,790</u>	<u>29,542</u>
Net Assets:			
Beginning of Fiscal Year, as originally reported	15,717,764	4,477,707	5,078,526
Restatements	<u>133,846</u>	-	-
Beginning of Fiscal Year, as restated	<u>15,851,610</u>	<u>4,477,707</u>	<u>5,078,526</u>
End of Fiscal Year	<u>\$ 16,690,740</u>	<u>\$ 4,821,497</u>	<u>\$ 5,108,068</u>

Changes in net assets, enterprise funds

Changes in net assets of business-type activities

Exhibit I

<u>Refuse</u>	<u>Parking</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
\$ 3,224,821	\$ 922,325	\$ 749,848	\$ 13,130,824	\$ 5,174,901
-	-	-	-	214,580
3,224,821	922,325	749,848	13,130,824	5,389,481
-	39,815	18,462	685,281	824,748
-	3,691	2,141	233,133	212,080
2,829,958	45,367	110,704	6,377,614	358,439
33,750	112,057	34,247	802,876	3,555,400
468	45,275	30,801	267,175	130,273
283,644	77,992	27,684	1,906,192	111,114
-	-	233,727	233,727	-
-	47,917	-	573,434	390,367
3,147,820	372,114	457,766	11,079,432	5,582,421
77,001	550,211	292,082	2,051,392	(192,940)
11,230	-	-	210,189	-
7,398	157,360	10,201	302,082	-
-	(612,294)	-	(858,012)	-
18,628	(454,934)	10,201	(345,741)	-
95,629	95,277	302,283	1,705,651	-
-	-	(75,000)	(75,000)	-
95,629	95,277	227,283	1,630,651	(192,940)
611,150	6,807,921	1,195,043	33,888,111	4,564,501
-	-	-	133,846	-
611,150	6,807,921	1,195,043	34,021,957	4,564,501
\$ 706,779	\$ 6,903,198	\$ 1,422,326	\$ 35,652,608	\$ 4,371,561
			\$ 1,630,651	
			\$ 1,630,651	

CITY OF MANHATTAN BEACH

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

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

See Notes to the Financial Statements

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

CITY OF MANHATTAN BEACH

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

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

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

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

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

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

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

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

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

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

Blended Component Unit

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

b. Accounting and Reporting Policies

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

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

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

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

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

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

c. Description of Funds

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

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

Governmental Fund Types

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

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

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

Proprietary Fund Types

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

Internal Service Funds - to account for interdepartmental operations where it is the stated intent that costs of providing services to the departments of the City on a continuing basis be financed or recovered primarily by charges to the user departments.

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

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

Fiduciary Fund Types

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

d. Basis of Accounting/Measurement Funds

Government-Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the City. Fiduciary activities of the City are not included in these statements.

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

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

Financial Statement Classification

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

Invested in Capital Assets, Net to Related Debt

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

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

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

Restricted Net Assets

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

Unrestricted Net Assets

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

Governmental Fund Financial Statements

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

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

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

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

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

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

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

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

Proprietary Fund Financial Statements

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

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

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

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

Fiduciary Funds

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

Major Funds

The City reports the following major governmental funds:

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Refuse Fund is used to account for the provision of refuse collection and recycling services in the City. The City bills both residential and commercial properties. Rates were not increased during this fiscal year.

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

e. Property Tax Calculator

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

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

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

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

f. Capital Assets

Capital assets, which include land, machinery and equipment, buildings and improvements, and infrastructure (roads, bridges, curbs and gutters, streets, walk-streets and sidewalks, parks and recreation improvements), are reported in the Governmental Activities column of the Government-Wide Financial Statements. Capital assets are defined by the City as assets with an initial, individual cost of more than a certain cost and an estimated life of more than two years. Minimum capitalization costs are as follows: Capital infrastructure assets, including buildings, improvements and infrastructure, \$100,000. General capital assets, including machinery and equipment, \$1,000. Such assets are recorded at historical cost and capitalized as acquired and/or constructed.

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

In 2002-2003, the City contracted with an independent firm to obtain a valuation of its capital assets. This was done to specifically comply with the reporting requirements of GASB Statement No. 34. For purposes of this study, capital assets were defined to include land, buildings and improvements, City owned utilities, streets and roadways, and parks and recreation facilities and improvements. This significant valuation project entailed many steps covering several months of work. Key steps to the project included: obtaining an inventory of all material City owned assets, establishing acquisition dates, deriving historical costs, developing and recommending useful lives, and constructing a basis for depreciation in arriving at a June 30, 2004, net book value. The completion of this valuation, along with the other reporting requirements of GASB Statement No. 34, presented a material change in accounting principle and the value of capital assets reported in the prior fiscal year.

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

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

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

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

g. Budgetary Basis of Accounting

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

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

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

h. Other Accounting Policies

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

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

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

i. Interfund Transfers

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

j. Long-Term Obligations

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

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

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

The recorded liability is based upon an estimate of reported claims as provided by an analysis of a third party administrator. Reported short-term and long-term estimated losses and reserves of \$2,101,640 and \$1,965,188, respectively, are recorded in the Insurance Reserve Fund.

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

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

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

k. Vacation and Sick Leave

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

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

l. Supplemental Leave Allowance

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2004, the total accrued liability for this benefit amounted to \$43,923, based on accumulated hours for months in service during the time period from January 1, 1990 to December 4, 1994, as specified in the parameters of the plan. Upon termination, the employee will be paid for any unused leave and as such the total amount of the liability is accrued as a long-term item (see Note 6). This balance decreased from prior year levels reflecting cash payouts to benefiting employees to be used in funding a newly established and optional employee funded retirement health plan.

m. Allocation of Interest Income Among Funds

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

n. Cash Flow Statements

For purposes of the Statement of Cash Flows, the Proprietary Fund types consider all cash and investments to be cash equivalents, as these funds participate in the City-wide cash and investment pool.

o. Estimates

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

p. Use of Restricted Resources

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 2: Cash and Investments

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

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

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

The City implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2004. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

Deposits

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

Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2004, none of the City's deposits or investments were exposed to custodial credit risk.

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

Note 2: Cash and Investments (Continued)

Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer. With respect to concentration risk, as of June 30, 2004, the City has not invested more than 50% of its total investments in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk

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

As of June 30, 2004, the City had the following investments and original maturities:

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

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

Note 2: Cash and Investments (Continued)

c. Authorized Investments

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

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan associations
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Demand Deposits
- Passbook Savings Account Demand Deposits
- Federally Insured Thrift and Loan
- Los Angeles County Pool
- Repurchase Agreements
- Medium-Term Corporate Notes
- Insured Municipal Bonds
- Floaters or step-ups with market driven interest rate adjustments
- Mutual Funds of highest ratings

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

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

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

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

e. Cash and Investments - 401 (a) Plan

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

f. Fair Value of Investments

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

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

Note 2: Cash and Investments (Continued)

Methods and assumptions used to estimate fair value - The City maintains investment accounting records and adjusts those records to "fair value" on an annual basis for material amounts. The City's investment custodian provides market values on each investment instrument on a monthly basis for material amounts. The investments held by the City are widely traded in the financial markets and trading values are readily available from numerous published sources. Material unrealized gains and losses are recorded on an annual basis and the carrying value of its investments is considered fair value. For the year ended June 30, 2004, \$151,063 of unrealized loss was recorded in the investment portfolio.

California State Treasurer's Local Agency Investment Fund (LAIF) - The City holds an investment in LAIF that is subject to being adjusted to "fair value." The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holdings in LAIF. The City had a contractual withdrawal value of \$40,000,000 whose pro-rata share of fair value was estimated by the State Treasurer to be \$39,935,367.

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

Note 3: Interfund Transactions

Interfund Transfers

With City Council approval, resources may be transferred from one fund to another. Transfers between individual funds during the fiscal year ended June 30, 2004 are presented below:

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

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

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

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

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

Note 3: Interfund Transactions (Continued)

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

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

Note 4: Lease and Notes Receivable

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

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

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

Note 5: Capital Assets and Depreciation

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2004:

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

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

Note 5: Capital Assets and Depreciation (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities (continued):				
Less accumulated depreciation:				
Buildings and structures	(2,213,435)	(94,114)	354,991	(1,952,558)
Machinery and equipment	(2,210,342)	(281,973)	79,588	(2,412,727)
Vehicles	(2,817,617)	(390,367)	77,730	(3,130,254)
Streets and roadways	(13,580,548)	(949,677)	-	(14,530,225)
Parks and recreation	(2,810,633)	(157,503)	-	(2,968,136)
Total Accumulated Depreciation	(23,632,575)	(1,873,634)	512,309	(24,993,900)
Total Capital Assets, Being Depreciated, Net	35,863,683	6,410,622	(253,260)	42,021,045
Governmental Activities Capital Assets, Net	\$ 69,498,249	\$ 6,410,622	\$ (253,260)	\$ 75,655,611
Business-Type Activities:				
Capital assets, not being depreciated:				
Land - water	\$ 307,967	\$ -	\$ -	\$ 307,967
Land - storm water	7,650	-	-	7,650
Land - parking	1,441,817	-	-	1,441,817
Total Capital Assets, Not Being Depreciated	1,757,434	-	-	1,757,434
Capital assets, being depreciated:				
Buildings and structures - parking	7,252,204	6,579,788	-	13,831,992
Machinery and equipment - parking	442,770	246,381	-	689,151
Water	16,694,923	983,233	-	17,678,156
Storm water	5,812,748	264,220	-	6,076,968
Wastewater	9,171,135	141,025	-	9,312,160
Total Capital Assets, Being Depreciated	39,373,780	8,214,647	-	47,588,427
Less Accumulated Depreciation:				
Buildings and structures - parking	(517,989)	(29,067)	-	(547,056)
Machinery and equipment - parking	(335,568)	(18,850)	-	(354,418)
Water	(7,082,598)	(263,694)	-	(7,346,292)
Storm water	(2,084,328)	(122,718)	-	(2,207,046)
Wastewater	(4,193,506)	(139,105)	-	(4,332,611)
Total Accumulated Depreciation	(14,213,989)	(573,434)	-	(14,787,423)
Total Capital Assets, Being Depreciated, Net	\$ 25,159,791	\$ 7,641,213	\$ -	\$ 32,801,004
Business-Type Activities Capital Assets, Net	\$ 26,917,225	\$ 7,641,213	\$ -	\$ 34,558,438

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

Note 5: Capital Assets and Depreciation (Continued)

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

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

Note 6: Long-Term Liabilities

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

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

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

Note 6: Long-Term Liabilities (Continued)

a. Capital Lease: Municipal Energy Retrofit Program

During the 1994-1995 fiscal year, the City entered into an energy-retrofitting program with Honeywell Home & Building Controls Services. As part of this program, the City contracted for the upgrade, replacement and maintenance of heating, lighting and air conditioning equipment for facilities at a variety of locations. In doing so, the City entered into a Lease-Purchase Agreement consisting of 41 consecutive quarterly payments commencing November 1994 and ending this next fiscal year, November 2004. Each payment includes interest at an imputed annual rate of 6.58%.

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

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

b. Marine Avenue Certificates of Participation

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 185,000	\$ 366,553	\$ 551,553
2006	190,000	361,364	551,364
2007	200,000	353,287	553,287
2008	205,000	345,542	550,542
2009	210,000	335,975	545,975
2010-2014	1,185,000	1,541,904	2,726,904
2015-2019	1,410,000	1,275,180	2,685,180
2020-2024	1,685,000	957,127	2,642,127
2025-2029	2,005,000	577,515	2,582,515
2030-2033	<u>1,880,000</u>	<u>140,813</u>	<u>2,020,813</u>
Total	<u>\$ 9,155,000</u>	<u>\$ 6,255,260</u>	<u>\$ 15,410,260</u>

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

Note 6: Long-Term Liabilities (Continued)

c. Supplemental Leave Allowances

In December 1994, an emergency leave bank was established for active management/confidential employees. At June 30, 2004, the total accrued liability for this benefit amounted to \$43,923, based on accumulated hours for months in service during the time period from January 1, 1990, to December 4, 1994, as specified in the parameters of the plan. Upon termination, the employee will be paid for any unused leave and, as such, the total amount of the liability is accrued as a long-term item.

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

d. Compensated Absences

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

e. Workers' Compensation Claims

This is an estimation of the workers' compensation claims that have been incurred but not reported. At June 30, 2004, the long-term portion was \$1,856,533.

f. General Liability Claims

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

g. Water and Wastewater Certificates of Participation

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

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

Note 6: Long-Term Liabilities (Continued)

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

Fiscal Year Ending June 30, 2004	Water			Wastewater		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 60,330	\$ 154,628	\$ 214,958	\$ 29,670	\$ 76,075	\$ 105,745
2006	63,655	151,342	214,997	31,334	74,458	105,792
2007	67,025	147,853	214,878	32,975	72,742	105,717
2008	70,376	144,161	214,537	34,624	70,925	105,549
2009	73,727	140,288	214,015	36,273	69,020	105,293
2010-2014	432,310	635,068	1,067,378	212,690	312,444	525,134
2015-2019	586,467	492,431	1,078,898	288,533	242,268	530,801
2020-2024	790,893	295,883	1,086,776	389,107	145,570	534,677
2025-2029	606,587	54,133	660,720	298,424	26,632	325,056
Total	<u>\$ 2,751,370</u>	<u>\$ 2,215,787</u>	<u>\$ 4,967,157</u>	<u>\$ 1,353,630</u>	<u>\$ 1,090,134</u>	<u>\$ 2,443,764</u>

h. Metlox Certificate of Participation

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 255,000	\$ 597,871	\$ 852,871
2006	260,000	592,771	852,771
2007	265,000	587,571	852,571
2008	270,000	581,609	851,609
2009	280,000	574,184	854,184
2010-2014	1,555,000	2,717,469	4,272,469
2015-2019	1,910,000	2,375,006	4,285,006
2020-2024	2,400,000	1,897,994	4,297,994
2025-2029	3,080,000	1,246,250	4,326,250
2030-2033	3,075,000	394,250	3,469,250
Total	<u>\$ 13,350,000</u>	<u>\$ 11,564,975</u>	<u>\$ 24,914,975</u>

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

Note 7: Classification Fund Balance and Enterprise Fund Net Assets

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

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

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

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

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

Note 8: Retirement Plans

a. California Public Employees Retirement System

Plan Description

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

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

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9% and 7% of their annual covered salary, respectively. The City of Manhattan Beach is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. In accordance with existing bargaining group labor agreements, the City fully pays the employee contribution for all full time salaried safety and miscellaneous employees. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2003-2004 was 15.679%, 12.495%, and zero for police, fire, and miscellaneous employees, respectively. The contribution requirements of the plan members are established by state statute, and the employer contribution rate is established, and may be amended, by PERS.

Annual Pension Cost

For fiscal year 2003-2004, the City of Manhattan Beach's annual pension cost was \$1,092,147 for the Police, Fire, and Miscellaneous Plans combined, and was equal to the City's required and actual contributions. The City also contributed \$1,299,753 for the 2003-2004 fiscal year on behalf of the employees. The City's payroll for employees covered by the plans for the year ended June 30, 2004, was \$16,402,367. The total payroll for the year was \$2,023,492. The required contributions for fiscal year 2003-2004 were determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: a) 8.25% investment rate of return (net of administrative expenses); b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members (from 3.75% to 11.59% for safety members); and

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

c) 2% maximum cost-of-living adjustment not to exceed the consumer price index. Both a) and b) include an inflation component of 3.5%. The actuarial value of the Safety and Miscellaneous Plans' assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The Safety and Miscellaneous Plans' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period ends June 30, 2011.

Three-Year Trend Information for PERS Police Plan

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

Annual Pension Cost and Net Pension Obligation Police Plan

The City of Manhattan Beach annual pension cost and change net pension obligation in fiscal year ending June 30, 2004 was as follows:

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

Schedules of Funding Progress for PERS Police Plan*

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

* latest available data

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

Note 8: Retirement Plans (Continued)

Three-Year Trend Information for PERS Fire Plan

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

Annual Pension Cost and Net Pension Obligation Fire Plan

The City of Manhattan Beach annual pension cost and change net pension obligation in fiscal year ending June 30, 2004 was as follows:

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

Schedules of Funding Progress for PERS Fire Plan*

<u>Valuation Date</u>	<u>Entry Level Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2000	\$ 20,769,978	\$ 26,126,347	\$ (5,356,369)	125.8%	\$ 2,224,554	(240.78) %
6/30/2001	22,790,321	26,700,234	(3,909,913)	117.2%	2,467,527	(158.45) %
6/30/2002	24,650,004	24,596,413	53,591	99.8%	2,619,069	2.05 %

* latest available data

Three-Year Trend Information for PERS Miscellaneous Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2002	\$ -	0%	\$ -
6/30/2003	-	0%	-
6/30/2004	-	0%	-

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

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for PERS Miscellaneous Plan*

Valuation Date	Entry Level Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2000	\$ 26,798,233	\$ 40,447,665	\$ (13,649,432)	150.9%	\$ 7,556,860	(180.62) %
6/30/2001	28,873,800	41,183,641	12,309,841	142.6%	7,750,542	(158.80) %
6/30/2002	31,063,455	38,260,387	7,196,932	123.2%	8,131,217	(88.51) %

* latest available data

b. City Funded Pension Plans

1. Supplemental Retirement Plan

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

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

The number of participants covered under the plan as of June 30, 2004 was as follows:

Retirees and beneficiaries receiving benefits:	
Management/Confidential	<u><u>5</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.

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

Note 8: Retirement Plans (Continued)

Schedules of Funding Progress for Supplemental Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/1995	\$ 1,614,068	\$ 1,522,147	\$ (91,921)	\$ 4,087,727	(1.39) %
6/30/1996	564,788	205,418	(359,370)	N/A	N/A
6/30/1997	543,583	205,418	(338,165)	N/A	N/A
6/30/1998	244,741	220,145	(24,596)	N/A	N/A
6/30/1999	238,406	220,145	(18,261)	N/A	N/A
6/30/2000	234,028	208,773	(25,240)	N/A	N/A
6/30/2001	227,989	208,773	(19,216)	N/A	N/A
6/30/2002	234,488	200,915	(33,573)	N/A	N/A
6/30/2003	224,064	200,915	(23,149)	N/A	N/A
6/30/2004	196,711	196,289	(422)	N/A	N/A

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

Year Ended	Annual Actual Contribution	Percentage Contribution
6/30/1995	\$ 44,965	100%
6/30/1996	N/A	N/A
6/30/1997	N/A	N/A
6/30/1998	N/A	N/A
6/30/1999	N/A	N/A
6/30/2000	N/A	N/A
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A

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

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

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

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

Note 8: Retirement Plans (Continued)

2. Single Highest Year Plan

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

The City has ceded the liabilities of active participants in the plan to PERS as of July 1, 1993. The City's remaining obligation is to fund the benefits for those participants who are currently retired. The number of participants covered under the plan as of June 30, 2004 was as follows:

Retirees and beneficiaries receiving benefits:	
Management/Confidential	5
Miscellaneous	2
Fire	2
Police	<u>5</u>
Total	<u><u>14</u></u>

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

Schedules of Funding Progress for Single Highest Year

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/1995	\$ 596,473	\$ 471,299	\$ (125,174)	N/A	N/A
6/30/1996	565,631	495,795	(69,836)	N/A	N/A
6/30/1997	520,280	495,795	(24,485)	N/A	N/A
6/30/1998	607,602	546,538	(61,064)	N/A	N/A
6/30/1999	596,229	546,538	(49,691)	N/A	N/A
6/30/2000	596,885	532,507	(64,378)	N/A	N/A
6/30/2001	580,156	532,507	(47,649)	N/A	N/A
6/30/2002	602,569	516,298	(86,271)	N/A	N/A
6/30/2003	582,400	516,298	(66,102)	N/A	N/A
6/30/2004	499,227	498,155	(1,072)	N/A	N/A

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

Note 8: Retirement Plans (Continued)

<u>Year Ended</u>	<u>Annual Actual Contribution</u>	<u>Percentage Contribution</u>
6/30/1995	N/A	N/A
6/30/1996	N/A	N/A
6/30/1997	N/A	N/A
6/30/1998	N/A	N/A
6/30/1999	N/A	N/A
6/30/2000	N/A	N/A
6/30/2001	N/A	N/A
6/30/2002	N/A	N/A
6/30/2003	N/A	N/A
6/30/2004	N/A	N/A

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

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

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

3. Post Retirement Plan for Firefighters

The Post Retirement Plan for Firefighters is a single-employer defined benefit pension plan of the City of Manhattan Beach. This plan was effective December 7, 1996 and is covered under the collective bargaining agreement with the Firefighters Association. The plan covers all firefighters covered under the collective bargaining agreement with the Firefighter's Association of Manhattan Beach. The plan provides for \$150 per month to cover the cost of insurance premiums. Eligibility includes any firefighter who takes a service retirement on and after December 7, 1996, and who has a minimum of 20 years of service with the City of Manhattan Beach. The benefit is payable until the participant qualifies for Medicare benefits. This plan is being accounted for in the Pension Fund. The Post Retirement Plan for Firefighters does not issue a separate annual financial report.

The number of participants covered under the plan as of June 30, 2004 was as follows:

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

City of Manhattan Beach
Notes to Financial Statements (Continued)

Note 8: Retirement Plans (Continued)

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

Schedules of Funding Progress for POST Retirement Health

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Accrued Liability	Covered Payroll	UAAL as a % of Payroll
6/30/2002	\$ 124,731	\$ 106,873	\$ (17,858)	N/A	N/A
6/30/2003	130,150	106,873	(23,277)	N/A	N/A
6/30/2004	208,679	208,231	(448)	N/A	N/A

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

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

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

Valuation Date	June 30, 2004
Actuarial cost method	Projected Unit Cost Credit Method
Actuarial Assumptions:	
Investment rate of return	6.5%

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

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

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

Total payroll for employees covered by this plan for the year was \$1,203,279. The amount of employee contribution was \$45,123, and employer contribution was \$45,123.

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

Note 9: Post-Employment Health Insurance

In addition to the pension benefits described in Note 9, the City provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees. To qualify, a retiree must meet the criteria for PERS retirement.

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

The City recognizes the cost of providing these benefits by recording the insurance premiums as expenditures. The cost to the City in fiscal year 2003-2004 for this benefit was \$4,900.

Note 10: Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently reports all of its risk management activities in its Insurance Reserve Fund. The City adopted a self-insured workers' compensation program that is administered by a service agent. The City is self-insured for the first \$250,000 on each claim. Insurance coverage in excess of the self-insured amount is provided by a private insurance company up to a limit of \$20,000,000. Also, the City is self-insured for the first \$250,000 on each general liability claim against the City. The insurance coverage in excess of the self-insured amount is provided by Independent Cities Risk Management Authority (ICRMA) up to a limit of \$10,000,000.

ICRMA is considered a self-sustaining risk pool. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2004, the amount of these liabilities was \$4,066,829. The amount represents an estimate of \$2,101,640 for reported claims through June 30, 2004, and \$1,965,189 of estimated incurred but not reported claims. This liability is the City's best estimate based on available information. Changes in the reported liability at June 30, 2004, resulted from the following:

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

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

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

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

Note 10: Risk Management (Continued)

The ICRMA has published its own financial report for the year ended June 30, 2004, which can be obtained from Independent Cities Risk Management Authority, 14156 Magnolia Park, Sherman Oaks, California.

Note 11: Joint Ventures and Jointly Governed Organizations

a. Joint Venture

South Bay Regional Public Communications Authority

The City is a member of the South Bay Regional Public Communications Authority (SBRPCA), a joint powers authority of the cities of Manhattan Beach, Gardena and Hawthorne. SBRPCA was formed October 14, 1975, for the purpose of financing a public safety communications system for the member cities. The Governing Board is composed of an elected official of each member City. An executive committee is composed of the City managers of each member City. The City's participation percentage at June 30, 2004, was 23.1%.

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

Balance Sheet

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

Revenues and Expenditures

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

*Most current information available.

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

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

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

b. Jointly Governed Organization

Los Angeles Interagency Metropolitan Police Apprehension Crime Task Force

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

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

Summarized audited financial information for L.A. IMPACT at June 30, 2003*, is presented below:

Balance Sheet

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

Revenues and Expenditures

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

*Most current information available.

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

Note 12: Employee 401(a) Plan

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

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

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

Note 13: Related Party Transactions

In June 1995, the City entered into a loan agreement with its City Manager to be used toward the purchase of his residence within the City. The original loan amount was \$430,000. The outstanding principal balance of the loan at June 30, 2004 was \$351,705.

In July 2000, the City entered into a loan agreement with its Police Chief to be used toward the purchase of his residence within the City. The original loan amount was \$427,500. The outstanding principal balance of the loan at June 30, 2004 was \$392,472.

Note 14: Commitments and Contingencies

There are certain lawsuits pending against the City which seek monetary damages. The outcome and financial effect of these matters on the City cannot presently be determined, and no provision for any potential liability or losses has been included in the basic financial statements as of June 30, 2004. However, City management expects such amounts, if any, to be immaterial.

Construction Management Services Contract - Police and Fire Facility

The City of Manhattan Beach has entered into a contract with Vanir Construction, Inc., to provide construction management services for the Police and Fire facility project. The contract was for an amount not-to-exceed \$1,420,592. As of June 30, 2004, the remaining balance on the contract was \$416,440.

Architect Contract - Police and Fire Facility

The City of Manhattan Beach has entered into a contract with Hellmuth, Obata & Kassabaum, Inc., to provide architectural services for the Police and Fire facility project. The contract was for an amount not-to-exceed \$2,475,234. As of June 30, 2004, the remaining balance on the contract was \$191,613.

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

Note 15: Operating Agreement

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

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

Note 16: Fund Balance Restatement

Beginning fund equity has been restated as follows:

Major enterprise fund:

Water fund

Prior year expenses understated

\$ 133,846

Note 18: Subsequent Event

Police and Fire Facility Certificates of Participation

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

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



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CITY OF MANHATTAN BEACH

JUNE 30, 2004

MAJOR FUND BUDGETARY COMPARISON SCHEDULES

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



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

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

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

CITY OF MANHATTAN BEACH

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

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

Special Revenue Funds

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

CITY OF MANHATTAN BEACH

JUNE 30, 2004

NONMAJOR FUND BUDGETARY COMPARISON SCHEDULES

Special Revenue Fund Description

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

Street Lighting Fund provides the power, maintenance and capital improvements for the lighting system within the City of Manhattan Beach. Money is received from a special assessment placed on each tax bill in the City, the amount of which is determined by the benefit received by the owner of each property. Assessments from Zone 10 of the street lighting district

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

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

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

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

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

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

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

CITY OF MANHATTAN BEACH

Schedule 3B

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

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

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

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

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

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

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

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

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

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

CITY OF MANHATTAN BEACH

Schedule 3G

BUDGETARY COMPARISON SCHEDULE
 AB 2766
 YEAR ENDED JUNE 30, 2004

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

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

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

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

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

CITY OF MANHATTAN BEACH

JUNE 30, 2004

NONMAJOR ENTERPRISE FUNDS

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

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

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

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2004**

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

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

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

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

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

CITY OF MANHATTAN BEACH

JUNE 30, 2004

NONMAJOR INTERNAL SERVICE FUNDS

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

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

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

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

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

**COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2004**

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

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

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



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

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

Schedule 10

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

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

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