

**MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
OF LOS ANGELES COUNTY
MANHATTAN BEACH, CALIFORNIA**

**AUDIT REPORT
June 30, 2004**

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
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FINANCIAL SECTION

MOSS, LEVY & HARTZHEIM

CERTIFIED PUBLIC ACCOUNTANTS
9107 WILSHIRE BLVD., SUITE 320
BEVERLY HILLS, CALIFORNIA 90210

TELEPHONE (310) 273-2745
FAX (310) 273-1689
E-MAIL: mlhbh@pacbell.net

ROBERT M. MOSS, C.P.A.*
RONALD A. LEVY, C.P.A.*
CRAIG A. HARTZHEIM, C.P.A.*
BRETT I. MILLER, C.P.A.

MEMBER

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Manhattan Beach Unified School District
Manhattan Beach, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manhattan Beach Unified School District as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District'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, each major fund, and the aggregate remaining fund information of the Manhattan Beach Unified School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Special Reserve Fund for the fiscal 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 a report dated November 5, 2004, on our consideration of the Manhattan Beach Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 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, consisting 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Manhattan Beach Unified School District's basic financial statements. The accompanying combining and individual fund financial statements and schedules, financial, and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Manhattan Beach Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM
Beverly Hills, California

November 5, 2004

Management Discussion and Analysis

This section of Manhattan Beach Unified School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's financial reports show revenues of \$55.9 million and expenditures of \$59.1 million, leaving a deficit spending of \$3.3 million. Net assets totaled \$ 4.7 million. Net assets are significantly down from last year, by \$15.5 million, due to a restatement of \$12.2 million necessary to comply with new accounting regulations that require the recognition of accreted interest on our capital appreciation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts-management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long- term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The financial statements also include notes to financial information and supplementary information.

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide financial statements report the District's net assets and how they have changed. Net assets: the difference between the District's assets and liabilities is one way to measure the District's health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, Manhattan Beach Unified School District is

reporting its basic services, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities. These are called Governmental Activities.

Fund financial statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law. Also, the District establishes other funds to control and manage money for particular purposes (repaying its long-term debts) or to show that it is properly using certain revenues (federal and state grants).

The District has three types of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on how cash and other financial assets that can readily be converted to cash flow and the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship between them.

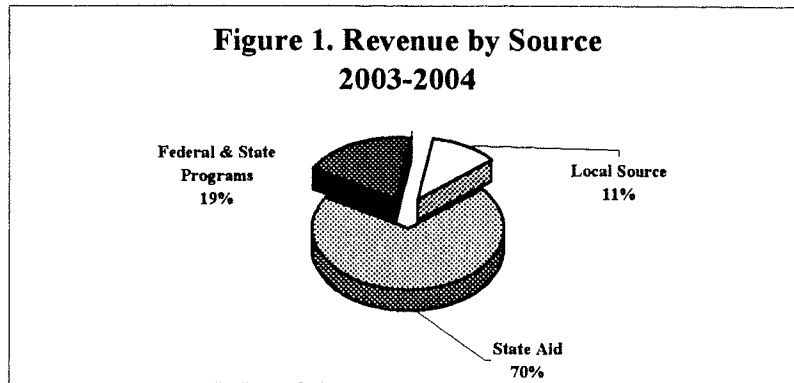
Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. In fact, the District's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities. The district currently has one internal service fund-the employee insurance fund.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

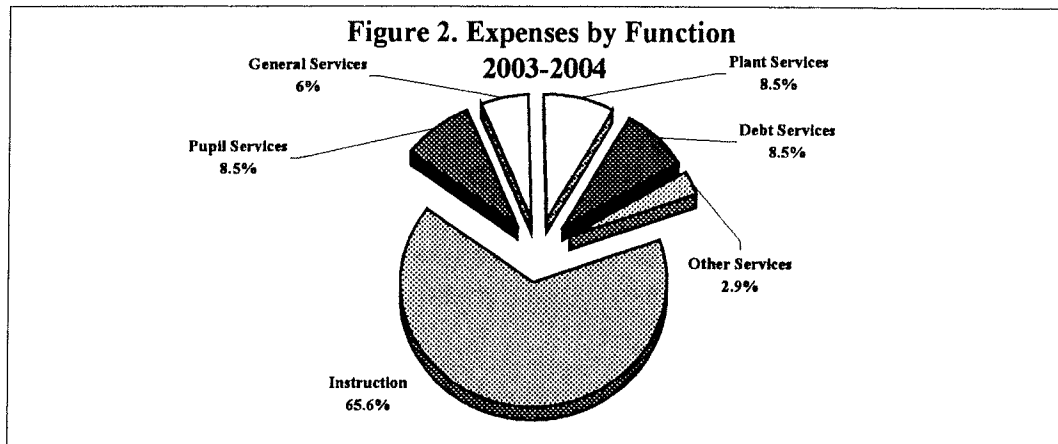
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets totaled \$4.7 million. The capital assets report shows a total value of \$110 million, less \$23 million of accumulated depreciation. The total of District's revenues were \$55.9 million. Property taxes and state formula aid accounted for 70 percent of the District's revenues (See Figure 1.) Another 19 percent came from state and federal aid for specific programs, and the remainder 11 percent is the results of fees charged for services and miscellaneous sources.



The District's expenses are predominantly related to educating and pupil services for students (74 percent). (See Figure 2) The purely administrative activities of the District accounted for 6 percent of total costs. Debt Service remains a significant expense at 8.5% of the total budget.



Governmental Activities

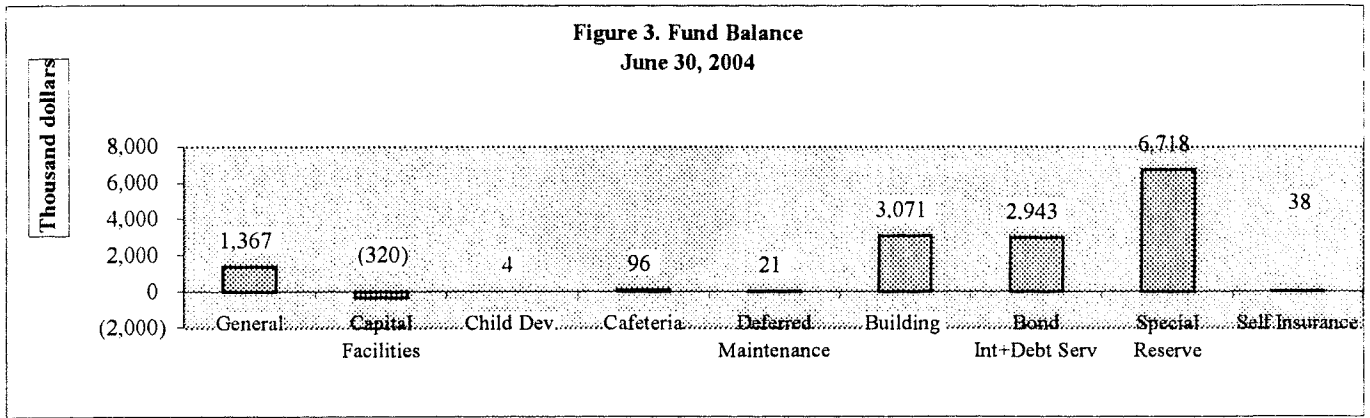
The six major District activities were Instruction - Guidance - Counseling - Evaluation, School Leadership, Student Transportation, Administration, Maintenance and Operations, and Debt Services. The Statement of Activities also shows each activity's net cost.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$13.9 million. Most of the District's governmental funds had less revenues than expenditures in 2003-2004, thereby contributing to the decrease in total fund balance. This was due to expending funds for completion of capital projects and use of reserves to cushion the effect of statewide budget cuts.

Over the course of the year, the District revised the annual operating budget each quarter to reflect revenue and expense projections. Ending fund balances are shown below:

**Figure 3. Fund Balance
June 30, 2004**



CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of June 2004, the District had invested \$ 87 million in a broad range of capital assets, including land, school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. Total depreciation expense for the year exceeded \$2.0 million. However, since land is carried at original cost, actual value of capital assets is understated. Existing construction projects have been completed.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was not aware of any existing circumstances that could significantly affect its financial health in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Office located at 325 S. Peck Avenue, Manhattan Beach, CA 90266.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT**STATEMENT OF NET ASSETS**

June 30, 2004

Assets	<u>Governmental Activities</u>
Cash in county treasury	\$ 14,430,506
Revolving cash fund	13,659
Cash in bank and on hand	181,854
Investments	1,915,198
Accounts receivable	3,882,132
Inventories, at cost	137,186
Prepaid items	162,759
Deferred loss on refunding, net of accumulated amortization	1,433,398
Debt issuance costs, net of accumulated amortization	128,793
Land	3,909,383
Construction in progress	11,095,069
Buildings and improvements	91,860,916
Equipment	3,478,681
Less accumulated depreciation	<u>(22,946,807)</u>
Total Assets	<u>109,682,727</u>
 Liabilities	
Accounts payable	6,205,060
Interest payable	813,201
Deferred revenue	578,631
Long-term liabilities:	
Due within one year:	
General obligation bonds payable	2,175,000
Certificates of participation payable	650,000
Postemployment benefits	25,418
Early retirement incentives	<u>95,804</u>
Total due within one year	<u>10,543,114</u>
Due after one year:	
Interest payable	13,901,651
General obligation bonds payable	65,003,888
Certificates of participation payable	14,785,000
Postemployment benefits	69,991
Early retirement incentives	287,413
Compensated absences payable	<u>373,915</u>
Total due after one year	<u>94,421,858</u>
Total Liabilities	<u>104,964,972</u>
 Net Assets	
Invested in capital assets, net of related debt	6,345,545
Restricted for:	
Capital projects	2,751,166
Unrestricted	<u>(4,378,956)</u>
Total net assets	<u>\$ 4,717,755</u>

See notes to basic financial statements.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 34,911,481	\$ 187,217	\$ 7,694,330	\$ -
Instruction-related services:				
Supervision of instruction	677,449	3,325	130,492	
Instructional library, media, and technology	420,037		110,993	
School site administration	2,735,566		108,948	
Pupil services:				
Home-to-school transportation	477,070	126	100,612	
Food services	2,013,710		265,163	
All other pupil services	2,651,116	17,501	635,472	
General administration:				
Data processing	533,378			
All other general administration	3,048,110	7,010	253,526	
Plant services	4,966,818		143,905	266,671
Ancillary services	370,833		69,074	
Interest on long-term debt	4,945,553			
Other outgo	1,370,917	120,376	1,234,985	
Total governmental activities	\$ 59,122,038	\$ 335,555	\$ 10,747,500	\$ 266,671

General revenues:

Taxes and subventions:

 Taxes levied for general purposes

 Taxes levied for debt service

 Tax levied for other specific purposes

Federal and state aid not restricted to specific purposes

Interest and investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of fiscal year

Prior year adjustments

Net assets beginning of fiscal year, restated

Net assets end of fiscal year

	Net (Expense) Revenue and Changes in Net Assets
	<u>Total</u>
\$	(27,029,934)
	(543,632)
	(309,044)
	(2,626,618)
	(376,332)
	(1,748,547)
	(1,998,143)
	(533,378)
	(2,787,574)
	(4,556,242)
	(301,759)
	(4,945,553)
	<u>(15,556)</u>
	<u>(47,772,312)</u>
	19,372,321
	3,248,600
	9,182
	16,170,500
	246,934
	<u>5,470,360</u>
	<u>44,517,897</u>
	<u>(3,254,415)</u>
	20,239,120
	<u>(12,266,950)</u>
	7,972,170
\$	<u><u>4,717,755</u></u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2004

	General Fund	Special Reserve Fund	Building Fund	Bond Interest and Redemption Fund
Assets				
Cash in county treasury	\$ 3,136,306	\$ 6,493,875	\$ 1,355,313	\$ 2,902,125
Revolving cash fund	10,000			
Cash in bank and on hand				
Investments			1,874,138	
Accounts receivable:				
Federal and state governments	2,884,379			
Other	752,791	24,470	2,235	
Inventory, at cost	93,337			
Prepaid items	162,759			
Due from other funds		200,000		
Total assets	\$ 7,039,572	\$ 6,718,345	\$ 3,231,686	\$ 2,902,125
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 5,116,586	\$ -	\$ 160,690	\$ -
Deferred revenue	555,956			
Due to other funds				
Total liabilities	5,672,542		160,690	
Fund balances:				
Reserved for revolving fund	10,000			
Reserved for inventory	93,337			
Reserved for prepaid items	162,759			
Reserved for debt service				2,902,125
Unreserved:				
Undesignated	1,100,934	6,718,345	3,070,996	
Total fund balances	1,367,030	6,718,345	3,070,996	2,902,125
Total liabilities and fund balances	\$ 7,039,572	\$ 6,718,345	\$ 3,231,686	\$ 2,902,125

See notes to basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 504,660	\$ 14,392,279
3,659	13,659
181,854	181,854
41,060	1,915,198
32,333	2,916,712
185,795	965,291
43,849	137,186
	162,759
	200,000
<u>\$ 993,210</u>	<u>\$ 20,884,938</u>

\$ 927,784	\$ 6,205,060
22,675	578,631
200,000	200,000
<u>1,150,459</u>	<u>6,983,691</u>
3,659	13,659
43,849	137,186
	162,759
	2,902,125
<u>(204,757)</u>	<u>10,685,518</u>
<u>(157,249)</u>	<u>13,901,247</u>
<u>\$ 993,210</u>	<u>\$ 20,884,938</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances - governmental funds \$ 13,901,247

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost \$ 110,344,049

Accumulated depreciation (22,946,807)

Net 87,397,242

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. (14,714,852)

In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issuance costs are capitalized and amortized over the life of the debt. 128,793

Deferred losses on refunding, net of accumulated amortization have not been reported in the governmental funds. These are capitalized and amortized over the life of the new debt or old debt whichever is shorter in the statement of net assets. 1,433,398

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable \$ (67,178,888)

Certificates of participation payable (15,435,000)

Postemployment benefits (95,409)

Early retirement incentives (383,217)

Compensated absences payable (373,915)

Total (83,466,429)

Internal service funds are used to charge the costs of services to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. 38,356

Total net assets, governmental activities \$ 4,717,755

See notes to basic financial statements.

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	General Fund	Special Reserve Fund	Building Fund	Bond Interest and Redemption Fund
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 13,075,794	\$ -	\$ -	\$ -
Local sources	19,512,621			
Federal	1,045,036			
Other state	7,721,670			22,309
Other local	4,836,327	116,820	301,530	3,259,819
Total revenues	46,191,448	116,820	301,530	3,282,128
Expenditures:				
Certificated salaries	23,555,347			
Classified salaries	7,400,838			
Employee benefits	7,397,780			
Books and supplies	1,305,293			
Contracted services and other operating expenses	6,513,935		14,168	
Capital outlay	86,133		9,912,873	
Other outgo	1,370,917			
Debt service	12,751		1,200,425	3,091,687
Total expenditures	47,642,994		11,127,466	3,091,687
Excess of revenues over (under) expenditures	(1,451,546)	116,820	(10,825,936)	190,441
Other Financing Sources (Uses):				
Bond proceeds			18,400,000	
Bond premium			910,422	
Payment to refunded debt escrow			(18,481,500)	
Transfers in	2,523,314		750,005	
Transfers out	(430,268)	(3,273,314)		
Total other financing sources (uses)	2,093,046	(3,273,314)	1,578,927	
Excess of revenues and other sources over (under) expenditures and other uses	641,500	(3,156,494)	(9,247,009)	190,441
Fund balances, July 1, 2003	762,411	9,874,839	12,318,005	2,711,684
Prior year adjustments	(36,881)			
Fund balances, July 1, 2003, restated	725,530	9,874,839	12,318,005	2,711,684
Fund balances, June 30, 2004	\$ 1,367,030	\$ 6,718,345	\$ 3,070,996	\$ 2,902,125

See notes to basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 13,075,794
180,894	19,512,621
910,644	1,225,930
4,883,635	8,654,623
<u>5,975,173</u>	<u>13,398,131</u>
776,672	55,867,099
1,807,018	24,332,019
794,777	9,207,856
1,116,469	8,192,557
488,185	2,421,762
1,431,276	7,016,288
251,570	11,430,282
<u>6,665,967</u>	<u>1,370,917</u>
(690,794)	4,556,433
<u>(690,794)</u>	<u>68,528,114</u>
430,268	18,400,000
(5)	910,422
<u>430,263</u>	<u>(18,481,500)</u>
(260,531)	3,703,587
<u>(260,531)</u>	<u>(3,703,587)</u>
214,417	828,922
(111,135)	(11,832,093)
<u>103,282</u>	<u>25,881,356</u>
(157,249)	(148,016)
<u>\$ (157,249)</u>	<u>25,733,340</u>
<u>\$ (157,249)</u>	<u>\$ 13,901,247</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$ (11,832,093)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$11,529,008 exceeds depreciation expense \$(2,016,367) in the period.	9,512,641
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	2,430,000
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:	(2,986,873)
Internal service funds are used by the District to charge the costs of service to individual funds. The net loss of internal service funds is reported with governmental activities.	(5,519)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, the amounts paid exceeded vacation earned by \$55,325	55,325
In the statement of activities, post-employment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, post-employment benefits paid were less than the amounts used by \$172,193.	172,193
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. This represents the net amount.	(657,962)
In governmental funds, deferred loss on refunding are recognized as expenditures in the period they are incurred. In the government-wide statements, deferred loss on refunding are amortized over the life of the debt. This is the amortization for the period.	(23,627)
In governmental funds, payments to refunded debt escrow are recognized as other financing uses. In the government-wide statements, payments to refunded debt escrow are reported as reduction to long-term debt. This amount includes the deferred loss on refunding as explained above, also included is the prior years unamortized debt issuance costs.	18,481,500
In governmental funds, general obligation bond proceeds are reported as other financing sources. In the government-wide statements, proceeds from general obligation bonds are reported as additions to long-term debt.	<u>(18,400,000)</u>
Changes in net assets of governmental activities	<u>\$ (3,254,415)</u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 14,213,146	\$ 12,969,153	\$ 13,075,794	\$ 106,641
Local sources	17,596,525	19,162,381	19,512,621	350,240
Federal	871,402	1,220,289	1,045,036	(175,253)
Other state	6,507,159	7,282,422	7,721,670	439,248
Other local	4,728,729	5,057,232	4,836,327	(220,905)
Total revenues	43,916,961	45,691,477	46,191,448	499,971
Expenditures:				
Certificated salaries	23,782,727	23,555,348	23,555,347	1
Classified salaries	7,107,133	7,876,803	7,400,838	475,965
Employee benefits	7,280,395	7,397,781	7,397,780	1
Books and supplies	1,397,951	1,583,404	1,305,293	278,111
Contracted services and other operating expenses	5,489,876	6,453,730	6,513,935	(60,205)
Capital outlay		86,133	86,133	
Other outgo	798,033	1,233,036	1,370,917	(137,881)
Debt service	400,900	400,900	12,751	388,149
Total expenditures	46,257,015	48,587,135	47,642,994	944,141
Excess of revenues over (under) expenditures	(2,340,054)	(2,895,658)	(1,451,546)	1,444,112
Other Financing Sources (Uses):				
Transfers in	2,523,314	2,523,314	2,523,314	
Transfers out	(180,000)	(180,000)	(430,268)	(250,268)
Total other financing sources (uses)	2,343,314	2,343,314	2,093,046	(250,268)
Excess of revenues and other sources over (under) expenditures and other uses	3,260	(552,344)	641,500	1,193,844
Fund balance, July 1, 2003	762,411	762,411	762,411	
Prior year adjustments			(36,881)	(36,881)
Fund balance, July 1, 2003, restated	762,411	762,411	725,530	(36,881)
Fund balance, June 30, 2004	\$ 765,671	\$ 210,067	\$ 1,367,030	\$ 1,156,963

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL RESERVE FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Other local	\$ 180,000	\$ 180,000	\$ 116,820	\$ (63,180)
Total revenues	180,000	180,000	116,820	(63,180)
Excess of revenues over (under) expenditures	180,000	180,000	116,820	(63,180)
Other Financing Sources (Uses):				
Transfers out	(2,523,314)	(3,273,314)	(3,273,314)	
Total other financing sources (uses)	(2,523,314)	(3,273,314)	(3,273,314)	
Excess of revenues and other sources over (under) expenditures and other uses	(2,343,314)	(3,093,314)	(3,156,494)	(63,180)
Fund balance, July 1, 2003	9,874,839	9,874,839	9,874,839	
Fund balance, June 30, 2004	<u>\$ 7,531,525</u>	<u>\$ 6,781,525</u>	<u>\$ 6,718,345</u>	<u>\$ (63,180)</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
June 30, 2004

	Governmental Activities
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Assets	
Cash in county treasury	\$ 38,227
Accounts receivable:	
Other	<u>129</u>
Total assets	<u>38,356</u>
Liabilities	
Accounts payable	<u> </u>
Total liabilities	<u> </u>
Net assets:	
Unrestricted	<u>38,356</u>
Total net assets	<u><u>\$ 38,356</u></u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2004

	Governmental Activities <u>Internal Service Fund</u> <u>Self-Insurance Fund</u>
Operating Expenses:	
Books and supplies	\$ 5,074
Contracted services and other operating expenses	<u>969</u>
Total expenses	<u>6,043</u>
Operating income (loss)	(6,043)
Non-operating Revenues (Expenses)	
Interest income	<u>524</u>
Change in net assets	(5,519)
Net assets, July 1, 2003	<u>43,875</u>
Net assets, June 30, 2004	<u><u>\$ 38,356</u></u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2004

	Governmental Activities <u>Internal Service Fund</u> <u>Self-Insurance Fund</u>
Cash Flows from Operating Activities:	
Cash paid for books and supplies	\$ (5,074)
Cash paid for contracted services and other operating expenses	<u>(969)</u>
Net cash provided (used) by operating activities	(6,043)
Cash Flows from Investing Activities:	
Interest received	<u>558</u>
Net increase (decrease) in cash and cash equivalents	(5,485)
Cash and cash equivalents at July 1, 2003	<u>43,712</u>
Cash and cash equivalents at June 30, 2004	<u><u>\$ 38,227</u></u>

Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities

Operating income (loss)	<u>\$ (6,043)</u>
Net cash provided (used) by operating activities	<u><u>\$ (6,043)</u></u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT FIDUCIARY OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	Expendable	Agency Funds		Totals
	Trust Fund	Payroll Clearance Fund	Student Body Funds	
	Retiree Benefits Fund			
Assets				
Cash in county treasury	\$ 1,032,312	\$ (387,161)	\$ -	\$ 645,151
Cash on hand and in banks			714,757	714,757
Accounts receivable:				
Other	4,133		4,137	8,270
Prepaid items		387,161		387,161
Total assets	<u>1,036,445</u>	<u></u>	<u>718,894</u>	<u>1,755,339</u>
Liabilities				
Accounts payable	1,035,326			1,035,326
Due to student groups			718,894	718,894
Total liabilities	<u>1,035,326</u>	<u></u>	<u>718,894</u>	<u>1,754,220</u>
Net Assets				
Unrestricted	<u>1,119</u>	<u></u>	<u></u>	<u>1,119</u>
Total net assets	<u>\$ 1,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,119</u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2004

	Expendable Trust Fund <u>Retiree Benefits Fund</u>
Additions	
Other local	\$ 19,967
Deductions	
Benefits	<u>118,034</u>
Changes in net assets	(98,067)
Net assets, July 1, 2003	<u>99,186</u>
Net assets, June 30, 2004	<u><u>\$ 1,119</u></u>

See notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Manhattan Beach Unified School District (District) accounts for its financial transactions in accordance with policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

B. Reporting Entity

The Manhattan Beach Unified School District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees.

The Manhattan Beach Unified School District (District) and the Manhattan Beach School Facilities Corporation (Corporation) have financial and operational relationships that meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, for inclusion of certain activity of the Corporation as a component unit of the District. Accordingly, certain financial activities of the Corporation have been included in the financial statements of the District.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds presents increases (i.e. revenues) and decreases (i.e. expenditures) in net total assets. The statement of cash flows provides information about how the District meets the cash flow needs of proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditure related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Special Reserve Fund is used to account for resources reserved for economic uncertainties.

The Building Fund is used to account for the acquisition of governmental capital facilities and buildings from the sale of bonds and certificates of participation issued by the Manhattan Beach School Facilities Corporation.

The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of District bonds, interest, and related costs.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three nonmajor special revenue funds:

1. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
2. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.
3. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs. The District maintains one nonmajor debt service fund.

The Corporate Debt Service Fund is used to account for interest and redemption of principal of the District's certificates of participation as issued by the Manhattan Beach School Facilities Corporation (Component Unit).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

Capital Projects Funds are used to account for the acquisition and/or construction of governmental capital assets. The District maintains one nonmajor capital project funds:

The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under the provisions of the California Environmental Quality Act (CEQA).

Proprietary Fund:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund:

The Self-Insurance Fund is used to pay small medical claims below the District's insurance deductible limits.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains one expendable trust fund, the Retiree Benefits Fund, which is used to pay benefits for retirees of the District.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for its student body accounts. The funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amount reported for student body funds represents the combined totals of all schools within the District. The District also maintains one agency fund for payroll clearance purposes.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District Superintendent during the fiscal year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and the Special Reserve Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the fiscal year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Los Angeles County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq.. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with the Los Angeles County Treasury was not available.

2. Inventories and Prepaid Items

Inventory is recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at the lower of cost (first-in, first out) or market and consists of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

3. Amortization of Deferred Charges

The costs of issuance of bonds are being amortized on the straight line method over the life of the bonds on the government-wide statements.

4. Deferred Loss on Refunding

The District has incurred a loss on the refunding of its debt. The deferred loss is being amortized on the straight line method over the lesser of the remaining period of the old debt or the remaining period of the new debt on the government-wide statements.

5. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more, and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the capital assets or materially extend the capital asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using the straight-line basis over the following estimated useful lives.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

5. Capital Assets (Continued)

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression system	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and tools	Shop and maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science and engineering	Lab equipment, scientific apparatus	10
Furniture and accessories	Classroom and other furniture	20
Business machines	Fax, duplicating and printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative long-term	10 to 20
Audio visual equipment	Projectors, cameras (still and digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

6. Deferred Revenue

Cash is received for federal and state special projects and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

7. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated employee sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize issuance costs as an expenditure during the current period.

9. Net Assets

The government-wide statement of net assets includes three equity categories entitled net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The invested in capital assets, net of related debt category presents the District's equity interest in capital assets less outstanding principal of related debt. The restricted net assets category is designed to reflect net assets that are subject to restrictions beyond the District's control (externally imposed or imposed by law). The unrestricted net assets category equals any remaining balance.

10. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The Reserve for Revolving Fund, Reserve for Inventory, and Reserve for Prepaid Items, reflect the portions of the fund balances represented by revolving fund cash, stores inventory, and prepaid items, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

11. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

11. Revenue Limit/Property Tax (Continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each fiscal year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those reported.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Los Angeles County Treasury as part of the common investment pool (\$15,075,657 as of June 30, 2004). The fair value of this pool as of that date, as provided by the plan sponsor, was \$15,075,657. The District is considered to be an involuntary participant in the external pool. Interest is deposited in the participating funds. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$896,611 as of June 30, 2004) and in the revolving fund (\$13,659) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions is fully insured or collateralized.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the District or its agent in the District's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

Investments in pools managed by other governments or in mutual funds are not required to be categorized.

Investments at June 30, 2004 are presented below:

	Category			Fair Value	Cost
	1	2	3		
First American Treasury Obligation Fund	\$ N/A	\$ N/A	\$ N/A	\$ 1,915,198	\$ 1,915,198
Total Investments	\$ -	\$ -	\$ -	\$ 1,915,198	\$ 1,915,198

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
<u>Major Funds</u>	
General Fund:	
Contract services and other operating expenses	\$ 60,205
Other outgo	\$ 137,881
<u>Nonmajor Funds</u>	
Child Development Fund:	
Classified salaries	\$ 75,431
Corporate Debt Service Fund:	
Debt service	\$ 251,570
Capital Facilities Fund:	
Capital outlay	\$ 478,851

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consist of the following:

	General Fund	Special Reserve Fund	Building Fund	Other Governmental Funds	Expendable Trust Fund	Agency Fund Student Body
Federal Government:						
Federal programs	\$ 321,005	\$ -	\$ -	\$ 30,889	\$ -	\$ -
State Government:						
Apportionment	1,027,592					
Categorical aid programs	942,651			1,444		
Lottery	408,091					
Other state	185,040					
Local Sources:						
Interest	9,455	24,470	2,235	1,323	4,133	
Miscellaneous	743,336			184,472		4,137
Totals	<u>\$ 3,637,170</u>	<u>\$ 24,470</u>	<u>\$ 2,235</u>	<u>\$ 218,128</u>	<u>\$ 4,133</u>	<u>\$ 4,137</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2004 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Major Funds:</u>		
Special Reserve Fund	\$ 200,000	\$ -
<u>Nonmajor Funds:</u>		
Cafeteria Fund		60,000
Child Development Fund		140,000
Totals	<u>\$ 200,000</u>	<u>\$ 200,000</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2003-2004 fiscal year are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Major Funds:</u>		
General Fund	\$ 2,523,314	\$ 430,268
Special Reserve Fund		3,273,314
Building Fund	750,005	
<u>Nonmajor Funds:</u>		
Deferred Maintenance Fund	180,000	
Corporate Debt Service Fund	250,268	5
Totals	<u>\$ 3,703,587</u>	<u>\$ 3,703,587</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, is shown below:

	<u>Balance July 1, 2003</u>	<u>Prior Period Adjustments</u>	<u>Restated Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Capital assets, not being depreciated:						
Land	\$ 4,043,526	\$ (134,143)	\$ 3,909,383	\$ -	\$ -	\$ 3,909,383
Construction in progress	3,734,035		3,734,035	7,361,034		11,095,069
Total capital assets, not being depreciated	<u>\$ 7,777,561</u>	<u>\$ (134,143)</u>	<u>\$ 7,643,418</u>	<u>\$ 7,361,034</u>	<u>\$ -</u>	<u>\$ 15,004,452</u>
Capital assets, being depreciated:						
Buildings and improvements	\$ 86,662,516	\$ 1,074,544	\$ 87,737,060	\$ 4,123,856	\$ -	\$ 91,860,916
Equipment	3,374,768	59,795	3,434,563	44,118		3,478,681
Total capital assets, being depreciated	<u>90,037,284</u>	<u>1,134,339</u>	<u>91,171,623</u>	<u>4,167,974</u>		<u>95,339,597</u>
Less accumulated depreciation	<u>(18,967,009)</u>	<u>(1,963,431)</u>	<u>(20,930,440)</u>	<u>(2,016,367)</u>		<u>(22,946,807)</u>
Total capital assets, being depreciated, net	<u>\$ 71,070,275</u>	<u>\$ (829,092)</u>	<u>\$ 70,241,183</u>	<u>\$ 2,151,607</u>	<u>\$ -</u>	<u>\$ 72,392,790</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$ 2,015,264
Food services	1,103
Total depreciation expense	<u>\$ 2,016,367</u>

Prior period adjustments of \$(963,235) were due to differences between the revised appraisal report and the original appraisal report.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 7 - BONDED DEBT

The outstanding general obligation bonded debt of the Manhattan Beach Unified School District at June 30, 2004, is:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding July 1, 2003</u>	<u>Issued Current Fiscal Year</u>	<u>Redeemed Current Fiscal Year</u>	<u>Balance Outstanding June 30, 2004</u>
1996A	3.60%-5.65%	2020	\$25,184,723	\$19,449,723	\$ -	\$ 1,415,000	\$18,034,723
1998B	4.50%-5.25%	2023	6,000,501	6,000,501			6,000,501
1999C	3.50%-5.87%	2024	5,000,040	4,890,040		110,000	4,780,040
2001D	3.00%-5.33%	2025	5,148,769	5,133,769		35,000	5,098,769
2001A	4.00%-5.69%	2026	21,513,829	21,488,829		16,860,000	4,628,829
2002B	3.00%-5.57%	2026	4,485,101	4,485,101		190,000	4,295,101
2002E	3.10%-5.57%	2026	5,940,925	5,940,925			5,940,925
2004	2.00%-4.00%	2019	18,400,000		18,400,000		18,400,000
			<u>\$91,673,888</u>	<u>\$67,388,888</u>	<u>\$18,400,000</u>	<u>\$18,610,000</u>	<u>\$67,178,888</u>

<u>Date of Issue</u>	<u>Amount of Capital Appreciation Bonds Included in Original Issue</u>
1996A	\$ 13,019,723
1998B	6,000,501
1999C	4,010,039
2001D	4,263,769
2001A	4,628,829
2002B	1,940,101
2002E	4,525,925
	<u>\$ 38,388,887</u>

Interest on capital appreciation bonds is accruing annually and is included as a separate component of long-term debt.

In March 2004, the District issued \$18,400,000 of general obligation refunding bonds to advance refund the \$16,885,000 2001A general obligation bonds (serial current interest bonds portion). As a result, the 2001A general obligation bonds are considered to be defeased and the liability for these bonds had been removed from the accompanying financial statements. The outstanding principal amount of the defeased debt as of June 30, 2004 was \$16,810,000.

The refunding resulted in a decrease of the District's total debt service payments by \$61,770 and an economic gain (difference between the present value of the old and new debt) of \$61,616.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

NOTE 7 - BONDED DEBT (Continued)

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2004, are as follows:

Fiscal Years Ending June 30,	1996A Issue		1998B Issue	
	Principal	Interest	Principal	Interest
2005	\$ 1,535,000	\$ 192,180	\$ -	\$ -
2006	1,670,000	120,835	28,706	11,294
2007	1,810,000	41,630	54,460	25,540
2008	1,102,235	867,765	6,445	3,555
2009	1,069,535	965,465	27,404	17,595
2010-2014	4,908,168	6,406,832	524,801	525,199
2015-2019	4,331,990	9,173,011	1,107,306	1,762,694
2020-2024	1,607,795	4,527,204	4,251,379	11,073,622
	<u>\$ 18,034,723</u>	<u>\$ 22,294,922</u>	<u>\$ 6,000,501</u>	<u>\$ 13,419,499</u>

Fiscal Years Ending June 30,	1999C Issue		2001D Issue	
	Principal	Interest	Principal	Interest
2005	\$ 155,000	\$ 29,406	\$ 45,000	\$ 29,353
2006	155,000	23,109	70,000	27,437
2007	170,000	16,300	90,000	24,712
2008	290,000	6,344	120,000	21,030
2009	197,258	137,742	140,000	16,345
2010-2014	886,973	913,027	803,822	400,573
2015-2019	741,384	1,288,616	927,568	1,262,433
2020-2024	925,577	2,698,924	820,443	1,664,558
2025-2026	1,258,848	4,321,152	2,081,936	5,823,063
	<u>\$ 4,780,040</u>	<u>\$ 9,434,620</u>	<u>\$ 5,098,769</u>	<u>\$ 9,269,504</u>

Fiscal Years Ending June 30,	2001A Issue		2002B Issue	
	Principal	Interest	Principal	Interest
2005	\$ -	\$ -	\$ 250,000	\$ 73,205
2006			290,000	65,105
2007			340,000	55,655
2008			395,000	44,433
2009			420,000	31,380
2010-2014			660,000	47,830
2015-2019			305,797	424,203
2020-2024	2,908,171	9,648,828	685,096	1,529,903
2025-2027	1,720,658	3,587,343	949,208	2,965,792
	<u>\$ 4,628,829</u>	<u>\$ 13,236,171</u>	<u>\$ 4,295,101</u>	<u>\$ 5,237,506</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 7 – BONDED DEBT (Continued)

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2004, are as follows (Continued):

Fiscal Years Ending June 30,	2002E Issue		2004 Issue	
	Principal	Interest	Principal	Interest
2005	\$ -	\$ 51,430	\$ 190,000	\$ 636,397
2006		51,430	225,000	705,365
2007		51,430	260,000	700,515
2008	195,000	48,407	295,000	694,965
2009	195,000	42,168	360,000	688,415
2010-2014	1,025,000	100,040	5,290,000	3,092,363
2015-2019	389,398	490,602	9,340,000	1,519,280
2020-2024	234,411	490,589	2,440,000	48,800
2025-2027	3,902,116	11,432,884		
	<u>\$ 5,940,925</u>	<u>\$ 12,758,980</u>	<u>\$ 18,400,000</u>	<u>\$ 8,086,100</u>

Fiscal Years Ending June 30,	Totals	
	Principal	Interest
2005	\$ 2,175,000	\$ 1,011,971
2006	2,438,706	1,004,575
2007	2,724,460	915,782
2008	2,403,680	1,686,499
2009	2,409,197	1,899,110
2010-2014	14,098,764	11,485,864
2015-2019	17,143,443	15,920,839
2020-2024	13,872,872	31,682,428
2025-2027	9,912,766	28,130,234
	<u>\$ 67,178,888</u>	<u>\$ 93,737,302</u>

NOTE 8 – CERTIFICATES OF PARTICIPATION PAYABLE

2001A Issue

In June of 2001, the Manhattan Beach School Facilities Corporation (Corporation Debt Service Fund) issued Certificates of Participation with an original principal amount of \$12,020,000 with interest ranging from 4.00 to 5.00 percent. The maturity date of the Certificates is August, 2020. At June 30, 2004, the principal outstanding was \$10,640,000.

2002B Issue

In May of 2002, the Manhattan Beach School Facilities Corporation (Corporation Debt Service Fund) issued Certificates of Participation with an original principal amount of \$5,000,000 with a variable interest rate. The maturity date of the Certificates is September, 2022. At June 30, 2004, the principal outstanding was \$4,795,000.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 8 – CERTIFICATES OF PARTICIPATION PAYABLE(Continued)

The annual requirements to amortize certificates of participation payable, outstanding as of June 30, 2004, are as follows:

Fiscal Years Ending June 30,	2001A Issue		2002B Issue	
	Principal	Interest	Principal	Interest
2005	\$ 440,000	\$ 477,125	\$ 210,000	\$ 46,200
2006	455,000	459,225	215,000	44,058
2007	480,000	440,525	215,000	41,908
2008	495,000	421,025	220,000	39,717
2009	510,000	400,925	225,000	37,475
2010-2014	2,910,000	1,654,955	1,200,000	152,000
2015-2019	3,635,000	896,807	1,335,000	88,325
2020-2023	1,715,000	86,875	1,175,000	19,909
	<u>\$ 10,640,000</u>	<u>\$ 4,837,462</u>	<u>\$ 4,795,000</u>	<u>\$ 469,592</u>

Fiscal Years Ending June 30,	Totals	
	Principal	Interest
2005	\$ 650,000	\$ 523,325
2006	670,000	503,283
2007	695,000	482,433
2008	715,000	460,742
2009	735,000	438,400
2010-2014	4,110,000	1,806,955
2015-2019	4,970,000	985,132
2020-2023	2,890,000	106,784
	<u>\$ 15,435,000</u>	<u>\$ 5,307,054</u>

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Postemployment benefits

In addition to the pension benefits described in Note 14, the District provides postemployment health care benefits to all employees who retire from the District on or after attaining age of 55 with at least 15 years of service. These postemployment health care benefits will be paid through age of 65 to a maximum of \$400 per year. On June 30, 2004, 21 retirees met these eligibility requirements and a total of \$95,409 is expected to be paid for these future benefits. For the fiscal year ending June 30, 2004, \$88,191 in postemployment health care benefits was paid by the District under this program.

Early retirement incentives

On May 21, 2003, the District adopted and implemented an Early Retirement Incentive Program (ERIP) for full-time certificated personnel for the 2002/2003 school year only. To be able to participate in the ERIP, employees must be current full-time certificated district employees, and: 1) be at least 55 years old, and 2) have accumulated at least ten years of service with the Manhattan Beach Unified School District at the time of ratification of this agreement. Eligible employees shall be entitled to receive health, dental, and vision insurance coverage up to the existing 2002/2003 cap for five years at the employee's current level of coverage (single party or two-party plan only). An equivalent amount of cash in lieu of health benefits at the employee's current level of coverage (single party or two-party plan only) can be selected at the option of the employee. On June 30, 2003, 19 retirees met these eligibility requirements and a total of \$468,819 will be paid for these future benefits. For the fiscal year ended June 30, 2004, \$85,602 was paid by the District under this program.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 10 – TAX AND REVENUE ANTICIPATION NOTES

The District issued \$3,500,000 of Tax and Revenue Anticipation Notes dated July 1, 2003. The notes matured on June 30, 2004 and yield 0.92 percent interest. The notes were sold by the District to supplement its cash flow.

NOTE 11 – CHANGES IN LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2004, is shown below:

	Balance July 1, 2003	Prior Period Adjustments	Restated Balance July 1, 2003
Compensated absences	\$ 429,240	\$ -	\$ 429,240
Postemployment benefits	182,000		182,000
Early retirement incentives	468,819		468,819
General obligation bonds	67,388,888		67,388,888
Certificates of participation	16,065,000		16,065,000
Unmatured interest payable (Capital appreciation bonds)		11,071,409	11,071,409
Totals	\$ 84,533,947	\$ 11,071,409	\$ 95,605,356

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due within One Year
Compensated absences	\$ 429,240	\$ -	\$ 55,325	\$ 373,915	\$ -
Postemployment benefits	182,000	1,600	88,191	95,409	25,418
Early retirement incentives	468,819		85,602	383,217	95,804
General obligation bonds	67,388,888	18,400,000	18,610,000	67,178,888	2,175,000
Certificates of participation	16,065,000		630,000	15,435,000	650,000
Unmatured interest payable (Capital appreciation bonds)	11,071,409	2,830,242		13,901,651	
Totals	\$ 95,605,356	\$ 21,231,842	\$ 19,469,118	\$ 97,368,080	\$ 2,946,222

Prior period adjustments of \$11,071,409 were due to an understatement of accreted interest payable on capital appreciation bonds.

NOTE 12 – JOINT POWER AUTHORITIES

Manhattan Beach Unified School District participated in three joint ventures under joint powers agreements (JPA) entities: the Los Angeles County Alliance of Schools of Co-operative Insurance programs – “ASCIP”, the Schools Excess Liability Fund – “SELF”, and the Centinela South Bay Self Insurance Authority – “CSBSIA”. The District pays premiums commensurate with the level of coverage requested or compensation of employees where payroll is a determining factor, and shares surpluses and deficits proportionate to its participation in the JPA.

Each JPA is governed by an independent board consisting of representatives of member districts. Each governing board controls the operation of its JPA, independent of any influence by the Manhattan Beach Unified School District beyond the District’s representation on the governing boards. Each JPA is independently accountable for its fiscal matters.

The relationships between the Manhattan Beach Unified School District and the JPAs is such that the JPAs are not a component unit of the Manhattan Beach Unified School District for financial reporting purposes.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

NOTE 12 – JOINT POWER AUTHORITIES (Continued)

Alliance of Schools for Co-operative Insurance (ASCIP)

The ASCIP arranges for and provides property and liability insurance for its members, all of whom are Southern California School Districts.

Schools Excess Liability Fund (SELF)

The SELF arranges for and provides excess liability insurance for its members.

Centinela South Bay Self Insurance Authority (CSBSIA)

The CSBSIA arranges for and provides workers compensation, property, third party liability risk claims, and certain employee benefits insurance for its members.

Audited and unaudited condensed financial information of ASCIP, SELF, and, CSBSIA are as follows:

	ASCIP (Unaudited) <u>June 30, 2004</u>	SELF <u>June 30, 2003*</u>	CSBSIA (Unaudited) <u>June 30, 2004</u>
Total assets	\$ 95,539,161	\$ 139,053,000	\$ 7,940,853
Total liabilities	63,592,613	107,855,000	2,603,000
Total fund balances	<u>31,946,548</u>	<u>31,198,000</u>	<u>5,337,853</u>
Total liabilities and fund balances	\$ 95,539,161	\$ 139,053,000	\$ 7,940,853
Total revenue	\$ 56,340,878	\$ 40,290,000	\$ 4,285,017
Total expenditures	<u>48,409,946</u>	<u>56,733,000</u>	<u>6,491,426</u>
Excess (deficit) of revenues over expenditures	<u>\$ 7,930,932</u>	<u>\$ (16,443,000)</u>	<u>\$ (2,206,409)</u>

*Most recent audited information available as of report date.

The District's share of fiscal year ending assets, liabilities, or fund equity in these JPAs has not been calculated or provided by the JPA administrators for these entities.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Litigation

According to the District's staff and attorney, there are no contingent liabilities outstanding or lawsuits pending of any real financial consequence.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Postemployment Health Benefit Programs

On July 1, 1993, the District unified with the South Bay Union High School District and assumed its early retirement incentive and postemployment health benefit programs. Contracts were assumed with eligible retirees whereby retirement and health benefits will be paid for varying lengths of time. Based on an actuarial study conducted in 2000, the estimated remaining liability for these retirees is \$1,006,646. The District however is funding the retiree benefits fund annually and anticipates a new actuarial study in near future. This liability is reflected in the self funded Retiree Benefits Fund. On June 30, 2004, 28 retirees were eligible and a total of \$118,034 in benefits was paid under this program.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

State Teachers' Retirement System (STRS)

Plan Description

The Manhattan Beach Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The Plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS' annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Manhattan Beach Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-2004 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Manhattan Beach Unified School District's contributions to STRS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$1,918,932, \$1,975,108, and \$1,691,554, respectively, and equal 100% of the required contributions for each fiscal year.

California Public Employees' Retirement System (CalPERS)

Plan Description

The Manhattan Beach Unified School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the Manhattan Beach Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2003-2004 was 10.420% of annual payroll. The contribution requirements of the plan members are established by state statute. The Manhattan Beach Unified School District's contributions to CalPERS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$896,644, \$183,623, and \$0, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 15 - DEFICIT FUND BALANCE

A deficit fund balance exists in the Capital Facilities Fund of \$319,830. The deficit was due to an unexpected increase in expenditures during the fiscal year. The deficit should be covered by future developer fees.

NOTE 16 - PRIOR PERIOD ADJUSTMENTS

Prior year adjustments totaling \$(12,266,950) in the government-wide financial statements were due to an overstatement of capital assets of \$(963,235), an understatement of accreted interest payable on capital appreciation bonds of \$(11,071,409), an understatement of interest payable of \$ (656,570), an understatement of deferred charges of \$572,280, an understatement of deferred revenue \$(46,111), and an overstatement of accounts receivable of \$(101,905).

A prior year adjustment of \$(36,881) in the general fund was due to an understatement of deferred revenue.

A prior year adjustment of \$(9,230) in the child development fund was due to an understatement of deferred revenue

A prior year adjustment of \$(101,905) in the deferred maintenance fund was due to an overstatement of accounts receivable.

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23. Title: _____

24. Address: _____

25. Company: _____

26. Phone: _____

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2004

	Deferred Maintenance Fund	Cafeteria Fund	Child Development Fund
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash in county treasury	\$ 20,955	\$ 30,602	\$ 256,484
Revolving cash fund		3,659	
Cash in bank and on hand		181,854	
Accounts receivable:			
Federal and state governments		32,333	
Other	140	49,521	135,632
Inventory, at cost		<u>43,849</u>	
 Total assets	 <u>\$ 21,095</u>	 <u>\$ 341,818</u>	 <u>\$ 392,116</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 185,415	\$ 225,418
Due to other funds		60,000	140,000
Deferred revenue			<u>22,675</u>
 Total liabilities		 <u>245,415</u>	 <u>388,093</u>
Fund balances:			
Reserved for revolving fund		3,659	
Reserved for inventory		43,849	
Unreserved:			
Undesignated	<u>21,095</u>	<u>48,895</u>	<u>4,023</u>
 Total fund balances	 <u>21,095</u>	 <u>96,403</u>	 <u>4,023</u>
 Total liabilities and fund balances	 <u>\$ 21,095</u>	 <u>\$ 341,818</u>	 <u>\$ 392,116</u>

Totals

\$ 308,041
 3,659
 181,854

32,333
 185,293
43,849

\$ 755,029

\$ 410,833
 200,000
22,675

633,508

3,659
 43,849

74,013

121,521

\$ 755,029

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	Deferred Maintenance Fund	Cafeteria Fund	Child Development Fund
Revenues:			
Federal	\$ -	\$ 176,894	\$ 4,000
Other state	1,000	8,315	901,329
Other local	207	1,702,921	2,066,021
Total revenues	<u>1,207</u>	<u>1,888,130</u>	<u>2,971,350</u>
Expenditures:			
Certificated salaries			776,672
Classified salaries		778,886	1,028,132
Employee benefits		205,506	589,271
Books and supplies	11,739	847,582	239,129
Contracted services and other operating expenses	53,408	66,150	237,334
Capital outlay			41,156
Total expenditures	<u>65,147</u>	<u>1,898,124</u>	<u>2,911,694</u>
Excess of revenues over (under) expenditures	<u>(63,940)</u>	<u>(9,994)</u>	<u>59,656</u>
Other Financing Sources (Uses):			
Transfers in	<u>180,000</u>		
Total other financing sources (uses)	<u>180,000</u>		
Excess of revenues and other sources over (under) expenditures and other uses	<u>116,060</u>	<u>(9,994)</u>	<u>59,656</u>
Fund balances, July 1, 2003	6,940	106,397	(46,403)
Prior year adjustments	<u>(101,905)</u>		<u>(9,230)</u>
Fund balances, July 1, 2003, restated	<u>(94,965)</u>	<u>106,397</u>	<u>(55,633)</u>
Fund balances, June 30, 2004	<u>\$ 21,095</u>	<u>\$ 96,403</u>	<u>\$ 4,023</u>

<u>Totals</u>	
\$	180,894
	910,644
	<u>3,769,149</u>
	<u>4,860,687</u>
	776,672
	1,807,018
	794,777
	1,098,450
	356,892
	<u>41,156</u>
	<u>4,874,965</u>
	(14,278)
	<u>180,000</u>
	<u>180,000</u>
	165,722
	66,934
	<u>(111,135)</u>
	<u>(44,201)</u>
\$	<u><u>121,521</u></u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	Deferred Maintenance Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Federal	\$ -	\$ -	\$ -
Other state	70,950	1,000	(69,950)
Other local		207	207
Total revenues	<u>70,950</u>	<u>1,207</u>	<u>(69,743)</u>
Expenditures:			
Certificated salaries			
Classified salaries			
Employee benefits			
Books and supplies	50,000	11,739	38,261
Contracted services and other operating expenses	95,000	53,408	41,592
Capital outlay			
Other outgo			
Total expenditures	<u>145,000</u>	<u>65,147</u>	<u>79,853</u>
Excess of revenues over (under) expenditures	<u>(74,050)</u>	<u>(63,940)</u>	<u>10,110</u>
Other Financing Sources (Uses):			
Transfers in	<u>180,000</u>	<u>180,000</u>	
Total other financing sources (uses)	<u>180,000</u>	<u>180,000</u>	
Excess of revenues and other sources over (under) expenditures and other uses	<u>105,950</u>	<u>116,060</u>	<u>10,110</u>
Fund balances, July 1, 2003	6,940	6,940	
Prior year adjustments		<u>(101,905)</u>	<u>(101,905)</u>
Fund balances, July 1, 2003, restated	<u>6,940</u>	<u>(94,965)</u>	<u>(101,905)</u>
Fund balances, June 30, 2004	<u>\$ 112,890</u>	<u>\$ 21,095</u>	<u>\$ (91,795)</u>

Cafeteria Fund			Child Development Fund		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 171,164	\$ 176,894	\$ 5,730	\$ 17,329	\$ 4,000	\$ (13,329)
8,444	8,315	(129)	907,417	901,329	(6,088)
1,720,392	1,702,921	(17,471)	1,971,399	2,066,021	94,622
1,900,000	1,888,130	(11,870)	2,896,145	2,971,350	75,205
			776,672	776,672	
780,760	778,886	1,874	952,701	1,028,132	(75,431)
205,506	205,506		589,271	589,271	
847,583	847,582	1	239,130	239,129	1
66,151	66,150	1	237,334	237,334	
			50,417	41,156	9,261
			(9,260)		(9,260)
1,900,000	1,898,124	1,876	2,836,265	2,911,694	(75,429)
	(9,994)	(9,994)	59,880	59,656	(224)
	(9,994)	(9,994)	59,880	59,656	(224)
106,397	106,397		(46,403)	(46,403)	
				(9,230)	(9,230)
106,397	106,397		(46,403)	(55,633)	(9,230)
\$ 106,397	\$ 96,403	\$ (9,994)	\$ 13,477	\$ 4,023	\$ (9,454)

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	Totals		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Federal	\$ 188,493	\$ 180,894	\$ (7,599)
Other state	986,811	910,644	(76,167)
Other local	3,691,791	3,769,149	77,358
Total revenues	<u>4,867,095</u>	<u>4,860,687</u>	<u>(6,408)</u>
Expenditures:			
Certificated salaries	776,672	776,672	
Classified salaries	1,733,461	1,807,018	(73,557)
Employee benefits	794,777	794,777	
Books and supplies	1,136,713	1,098,450	38,263
Contracted services and other operating expenses	398,485	356,892	41,593
Capital outlay	50,417	41,156	9,261
Other outgo	(9,260)		(9,260)
Total expenditures	<u>4,881,265</u>	<u>4,874,965</u>	<u>6,300</u>
Excess of revenues over (under) expenditures	<u>(14,170)</u>	<u>(14,278)</u>	<u>(108)</u>
Other Financing Sources (Uses):			
Transfers in	<u>180,000</u>	<u>180,000</u>	
Total other financing sources (uses)	<u>180,000</u>	<u>180,000</u>	
Excess of revenues and other sources over (under) expenditures and other uses	<u>165,830</u>	<u>165,722</u>	<u>(108)</u>
Fund balances, July 1, 2003	66,934	66,934	
Prior year adjustments		<u>(111,135)</u>	<u>(111,135)</u>
Fund balances, July 1, 2003, restated	<u>66,934</u>	<u>(44,201)</u>	<u>(111,135)</u>
Fund balances, June 30, 2004	<u>\$ 232,764</u>	<u>\$ 121,521</u>	<u>\$ (111,243)</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR DEBT SERVICE FUND
BALANCE SHEET
 June 30, 2004

		<u>Corporate Debt Service Fund</u>
Assets		
Investments		\$ 41,060
Total assets		<u>\$ 41,060</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable		\$ -
Total liabilities		<u>\$ -</u>
Fund balance:		
Unreserved:		
Undesignated		41,060
Total fund balance		<u>41,060</u>
Total liabilities and fund balance		<u>\$ 41,060</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2004

	Corporate Debt Service Fund
Revenues:	
Other local	\$ 275
Total revenues	<u>275</u>
Expenditures:	
Debt service	<u>251,570</u>
Total expenditures	<u>251,570</u>
Excess of revenues over (under) expenditures	<u>(251,295)</u>
Other Financing Sources (Uses):	
Transfers in	250,268
Transfers out	<u>(5)</u>
Total other financing sources (uses)	<u>250,263</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(1,032)</u>
Fund balance, July 1, 2003	<u>42,092</u>
Fund balance, June 30, 2004	<u>\$ 41,060</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	Corporate Debt Service Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ -	\$ 275	\$ 275
Total revenues		275	275
Expenditures:			
Debt service		251,570	(251,570)
Total expenditures		251,570	(251,570)
Excess of revenues over (under) expenditures		(251,295)	(251,295)
Other Financing Sources (Uses):			
Transfers in		250,268	250,268
Transfers out		(5)	(5)
Total other financing sources (uses)		250,263	250,263
Excess of revenues and other sources over (under) expenditures and other uses		(1,032)	(1,032)
Fund balance, July 1, 2003	42,092	42,092	
Fund balance, June 30, 2004	\$ 42,092	\$ 41,060	\$ (1,032)

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
June 30, 2004

**Capital
Facilities
Fund**

Assets

Cash in county treasury	\$ 196,619
Accounts receivable:	
Other	502
Total assets	\$ 197,121

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 516,951
Total liabilities	516,951

Fund balance:

Unreserved:	
Undesignated	(319,830)

Total fund balance	(319,830)
---------------------------	------------------

Total liabilities and fund balance	\$ 197,121
---	-------------------

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2004

	<u>Capital Facilities Fund</u>
Revenues:	
Other local	\$ 1,114,211
 Total revenues	 <u>1,114,211</u>
Expenditures:	
Books and supplies	18,019
Contracted services and other operating expenses	131,293
Capital outlay	<u>1,390,120</u>
 Total expenditures	 <u>1,539,432</u>
 Excess of revenues over (under) expenditures	 (425,221)
 Fund balance, July 1, 2003	 <u>105,391</u>
 Fund balance, June 30, 2004	 <u><u>\$ (319,830)</u></u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	<u>Capital Facilities Fund</u>		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Other local	\$ 927,000	\$ 1,114,211	\$ 187,211
Total revenues	<u>927,000</u>	<u>1,114,211</u>	<u>187,211</u>
Expenditures:			
Books and supplies	18,020	18,019	1
Contracted services and other operating expenses	131,293	131,293	
Capital outlay	<u>911,269</u>	<u>1,390,120</u>	<u>(478,851)</u>
Total expenditures	<u>1,060,582</u>	<u>1,539,432</u>	<u>(478,850)</u>
Excess of revenues over (under) expenditures	(133,582)	(425,221)	(291,639)
Fund balance, July 1, 2003	<u>105,391</u>	<u>105,391</u>	
Fund balance, June 30, 2004	<u>\$ (28,191)</u>	<u>\$ (319,830)</u>	<u>\$ (291,639)</u>

Any copy of this report
 or any part thereof
 may be obtained by
 mail upon request from
 the Secretary of the Bank
 at the address above
 provided.

FOR THE BOARD OF DIRECTORS
 JOHN H. JAMES, Chairman

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FOR THE BOARD OF DIRECTORS

1	1982	1981
2	1981	1980
3	1980	1979
4	1979	1978
5	1978	1977
6	1977	1976
7	1976	1975

FOR THE BOARD OF DIRECTORS
 JOHN H. JAMES, Chairman

FOR THE BOARD OF DIRECTORS
 JOHN H. JAMES, Chairman

FOR THE BOARD OF DIRECTORS
 JOHN H. JAMES, Chairman

FOR THE BOARD OF DIRECTORS
 JOHN H. JAMES, Chairman

Journal Pre-proof

Section	Page	Page
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Methodology	2	2
Results	3	3
Discussion	4	4
Conclusion	5	5

SUPPLEMENTARY INFORMATION SECTION

Supplementary Information

Supplementary Information

Supplementary Information

Supplementary Information

Supplementary Information

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2004

The members of the Board of Trustees of the Manhattan Beach Unified School District holding office during the audit period and their respective expiration dates of terms of office were as follows:

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Bill Cooper	President	December 2007
Lynette Campbell	Vice President	December 2005
Joseph Loverich	Member	December 2005
Amy Howorth	Clerk	December 2007
Mary A. Rogers	Member	December 2005

ADMINISTRATION

Gwen E. Gross, PhD
Superintendent

Stephen L. McMahon
Assistant Superintendent – Business

Janet Schwabe
Director - Personnel

Ellyn Schneider
Director – Special Education

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For Fiscal Year Ended June 30, 2004

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary		
Kindergarten	539.32	539.96
First through Third	1,251.65	1,251.29
Fourth through Sixth	1,226.26	1,226.70
Seventh and Eighth	870.99	869.94
Home and Hospital	1.21	1.69
Special Education	27.39	28.80
Extended Year	<u>3.21</u>	<u>3.21</u>
Subtotals	<u>3,920.03</u>	<u>3,921.59</u>
Secondary		
Ninth through Twelfth	2,265.38	2,252.93
Home and Hospital	4.13	5.87
Special Education	72.24	73.15
Extended Year	9.62	9.62
Regional Occupational Center Mandated Programs	<u>141.69</u>	<u>145.03</u>
Subtotals	<u>2,493.06</u>	<u>2,486.60</u>
Totals	<u>6,413.09</u>	<u>6,408.19</u>

Supplemental Instructional Hours

Hours of
Attendance

Elementary	7,477
Secondary	<u>3,274</u>
	<u><u>10,751</u></u>

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2004

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2003-04 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	35,000	36,000	36,000	180	In compliance
Grades 1 through 3	45,500	50,400	50,427	180	In compliance
Grades 4 through 5	54,250	54,000	57,780	180	In compliance
Grades 6 through 8	56,875	54,000	63,890	180	In compliance
Grades 9 through 12	*	64,800	64,946	180	In compliance

*Not applicable – The high school joined the District in July 1, 1993.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater by Education Code Section 46201.

The District has received incentive funding for increasing instructional time as provided by the Incentive for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For Fiscal Year Ended June 30, 2004

<u>General Fund</u>	(Budget) <u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues and other financial sources	\$ 45,783,432	\$ 48,714,762	\$ 49,795,460	\$ 45,062,340
Expenditures	44,196,837	47,642,994	48,843,172	45,104,838
Other uses and transfers out	<u>135,630</u>	<u>430,268</u>	<u>220,904</u>	<u>611,081</u>
Total outgo	<u>44,332,467</u>	<u>48,073,262</u>	<u>49,064,076</u>	<u>45,715,919</u>
Prior period adjustments	<u> </u>	<u>(36,881)</u>	<u> </u>	<u> </u>
Change in fund balance	<u>1,450,965</u>	<u>604,619</u>	<u>731,384</u>	<u>(653,579)</u>
Ending fund balance	<u>\$ 2,817,995</u>	<u>\$ 1,367,030</u>	<u>\$ 762,411</u>	<u>\$ 31,027</u>
Available reserves	<u>\$ 2,551,899</u>	<u>\$ 1,100,934</u>	<u>\$ 555,468</u>	<u>\$ -</u>
Designated for economic uncertainties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Undesignated fund balance	<u>\$ 2,551,899</u>	<u>\$ 1,100,934</u>	<u>\$ 555,468</u>	<u>\$ -</u>
Available reserves as a percentage of total outgo	5.76%	2.29%	1.13%	0%
Available reserve percentage With inclusion of unrestricted Special reserve fund	17.93%	16.27%	21.26%	27.31%
Total long-term debt	\$ 94,421,858	\$ 97,368,080	\$ 84,533,947	\$ 85,920,643
Average daily attendance at P-2	6,447	6,413	6,451	6,283

This schedule discloses the District's financial trends by displaying past fiscal years' data along with current fiscal year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

The General Fund balance has increased by \$1,336,003 over the two past fiscal years. The fiscal year 2004-2005 budget projects a increase of \$1,450,965. When the unrestricted Special Reserve Fund is included in the calculation (as allowed by the State), the available reserves measured as a percentage of total outgo was 16.27%. For a district this size, the state recommends available reserve of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three fiscal years, and anticipates a surplus during the 2004-2005 fiscal year. Total long-term debt has increased by \$11,447,437 over the past two fiscal years.

Average daily attendance has increased by 130 over the past two fiscal years. An increase of 34 ADA is anticipated during the fiscal year 2004-2005.

**MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2004

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Catalog Number	Federal Expenditures
Federal Programs:		
U.S. Department of Education passed Through		
California Department of Education:		
IDEA Part B:		
Local Assistance	84.027	\$ 698,488
Preschool Local Entitlement	84.027A	2,090
Staff Development	84.027A	117,064
Sub-Total 84.027		<u>817,642</u>
IDEA Part B:		
Preschool Staff Development	84.173A	908
Federal Preschool	84.173	67,117
Sub-Total 84.173		<u>68,025</u>
Title II - Teachers Quality	84.367	17,537
Title I	84.010	93,808
Carl Perkins Vocational Education:		
Title II, Part C, Sec.131, Secondary Education	84.048	16,517
Title IV Safe and Drug-Free Schools	84.186	21,409
Title IV - Innovative Strategies	84.298A	7,449
Title III - Limited English Proficiency	84.365	2,649
U.S. Department of Agriculture Passed Through		
The California Department of Education:		
National School Lunch	10.555	141,602
Basic School Breakfast Program	10.553	35,292
U.S. Department of Health and Human Services Passed Through the California Department of Education:		
Capacity Project	93.575	4,000
Total Federal Awards		<u><u>\$ 1,225,930</u></u>

The accompanying notes are an integral part of this schedule.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2004

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Manhattan Beach Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (J-200) WITH
AUDITED FINANCIAL STATEMENTS

June 30, 2004

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Cafeteria Fund</u>
June 30, 2004 Annual Financial and Budget Report (Form J-200) Fund Balances	\$ 1,112,773	\$ 21,095	\$ 96,403
Understatement of cash with fiscal agent			
Understatement of account receivable	314,463		
Understatement of accounts payable	<u>(60,206)</u>		
June 30, 2004 Audited Financial Statements Fund Balances	<u>\$ 1,367,030</u>	<u>\$ 21,095</u>	<u>\$ 96,403</u>

	<u>Bond Interest and Redemption Fund</u>	<u>Self - Insurance Fund</u>
June 30, 2004 Annual Financial and Budget Report (Form J-200) Fund Balances	<u>\$ 2,902,125</u>	<u>\$ 38,356</u>
June 30, 2004 Audited Financial Statements Fund Balances	<u>\$ 2,902,125</u>	<u>\$ 38,356</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities of the general long-term debt account group as reported on the Form J-200 to the audited financial statements.

STATE OF ALABAMA
 DEPARTMENT OF REVENUE
 STATE FINANCIAL OFFICE
 300 MONROE DRIVE
 MONTGOMERY, AL 36103
 (205) 261-3000

Child Development Fund	Special Reserve Fund	Building Fund	Capital Facilities Fund
\$ 4,023	\$ 6,718,345	\$ 3,070,060	\$ 159,022
		161,626	
		(160,690)	(478,852)
\$ 4,023	\$ 6,718,345	\$ 3,070,996	\$ (319,830)

**Long-Term
Debt**

June 30, 2004 Annual Financial and Budget Report (Form J-200)

Total Liabilities	\$ 82,010,184
Understatement of general obligation bonds	1,590,000
Overstatement of compensated absences	(55,325)
Overstatement of post-employment benefits	(78,430)
Understatement of interest payable	13,901,651

June 30, 2004 Audited Financial Statements Long-Term Debt

Total Liabilities	\$ 97,368,080
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MOSS, LEVY & HARTZHEIM

CERTIFIED PUBLIC ACCOUNTANTS
9107 WILSHIRE BLVD., SUITE 320
BEVERLY HILLS, CALIFORNIA 90210

TELEPHONE (310) 273-2745
FAX (310) 273-1689
E-MAIL: mlhbh@pacbell.net

ROBERT M. MOSS, C.P.A.*
RONALD A. LEVY, C.P.A.*
CRAIG A. HARTZHEIM, C.P.A.*
BRETT I. MILLER, C.P.A.

MEMBER

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DEFENDERS PROFESSIONAL CORPORATION

AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Manhattan Beach Unified School District
Manhattan Beach, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manhattan Beach Unified School District (the District) as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM
Beverly Hills, California
November 5, 2004

MOSS, LEVY & HARTZHEIM

CERTIFIED PUBLIC ACCOUNTANTS
9107 WILSHIRE BLVD., SUITE 320
BEVERLY HILLS, CALIFORNIA 90210

TELEPHONE (310) 273-2745
FAX (310) 273-1689
E-MAIL: mlhbh@pacbell.net

ROBERT M. MOSS, C.P.A.*
RONALD A. LEVY, C.P.A.*
CRAIG A. HARTZHEIM, C.P.A.*
BRETT I. MILLER, C.P.A.

MEMBER

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PAUL NIEDERMULLER, C.P.A.
KARAN C. POHL, C.P.A.
REGISTERED PROFESSIONAL CORPORATION

AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Manhattan Beach Unified School District
Manhattan Beach, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manhattan Beach Unified School District as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	6	Yes
Kindergarten continuation	3	Yes
Independent study	22	No (see below)
Continuation education	10	Not applicable
Adult education	9	Not applicable
Regional occupational centers/programs	6	No (see below)
Instructional time and staff development		
Reform program	7	Yes
Instructional time:		
School districts	4	Yes
County offices of education	3	Not applicable
Community day schools	9	Not applicable
Class size reduction:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts with only one school serving K-3	4	Not applicable

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Instructional materials general requirements	9	Not applicable
K-8	1	Yes
Grades 9-12	1	Yes
Ratios of Administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not applicable

We did not perform testing for independent study because the independent study ADA was below the level which requires testing.

We did not perform procedures for the ADA of the ROP program because the ROP program is administered by Southern California Regional Occupational Center (SCROC). The SCROC is audited in each year pursuant to State Audit Guide requirement.

Based on our audit, we found that, for the items tested, the Manhattan Beach Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for the items not tested, nothing came to our attention to indicate that the Manhattan Beach Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of management, State Controller's Office, Department of Finance, and the Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM
Beverly Hills, California

November 5, 2004

MOSS, LEVY & HARTZHEIM

CERTIFIED PUBLIC ACCOUNTANTS

9107 WILSHIRE BLVD., SUITE 320

BEVERLY HILLS, CALIFORNIA 90210

TELEPHONE (310) 273-2745
FAX (310) 273-1689
E-MAIL: mlhbh@pacbell.net

ROBERT M. MOSS, C.P.A.*
RONALD A. LEVY, C.P.A.*
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PAUL NIEDERMULLER, C.P.A.
KARAN C. POHL, C.P.A.
MEMBER PROFESSIONAL CORPORATION

AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustee
Manhattan Beach Unified School District
Manhattan Beach, California

Compliance

We have audited the compliance of the Manhattan Beach Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2004. The Manhattan Beach Unified School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Manhattan Beach Unified School District's management. Our responsibility is to express an opinion on the Manhattan Beach Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Manhattan Beach Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Manhattan Beach Unified School District's compliance with those requirements.

In our opinion, the Manhattan Beach Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

The management of the Manhattan Beach Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Manhattan Beach Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM
Beverly Hills, California

November 5, 2004

TO THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES
ATTENTION: COUNTY ADMINISTRATOR
COUNTY COURTHOUSE
400 WEST 1ST STREET
LOS ANGELES, CALIFORNIA 90012

RE: [Illegible text]

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FINDINGS AND RECOMMENDATIONS SECTION

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 June 30, 2004

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reporting condition(s) identified not considered to be material weaknesses?	<u> X </u>	Yes	_____	None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reporting condition(s) identified not considered to be material weaknesses?	<u> X </u>	Yes	_____	None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a) _____ Yes X No

Identification of major programs

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>IDEA-Part B – Special Education</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee: _____ Yes X No

State Awards

Internal control over state programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reporting conditions(s) identified not considered to be material weaknesses?	<u> X </u>	Yes	_____	None reported

Type of auditor’s report issued on compliance for state programs: Qualified

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section II- Financial Statement Findings

FINDING 2004-1
REVOLVING CASH
30000

Finding:

A review of the District's general revolving fund (non-cafeteria) disclosed that check disbursements required only one signature and the account had not been reconciled since the last fiscal year audit.

Recommendation:

All checks should require two signatures and the account should be reconciled monthly to avoid misappropriation of funds.

District Response:

Staff will again be trained in implementation of revolving fund procedures. Periodic internal reviews will be scheduled to ensure compliance.

FINDING #2004-2
STUDENT BODY ACCOUNTS
30000

Finding:

At Manhattan Beach Middle School, we noted that a "PAID" stamp is not used.

Recommendation:

The District should require the School to use a "PAID" stamp to prevent invoices from being submitted more than once for payment.

District's Response:

The District will implement this procedure.

FINDING #2004-3
STUDENT BODY ACCOUNTS
30000

Finding:

At Manhattan Beach Middle School, we noted that seven out of the 20 invoices were not retained by the School.

Recommendation:

The District should require the School to obtain and retain all the supporting documents for all payments made from the student body bank account.

District's Response:

The District will direct the Middle School to retain all invoices.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section II- Financial Statement Findings (Continued)

FINDING 2004-4
CASH DISBURSEMENT
30000

Finding:

The test of disbursements revealed that invoices examined did not contain "Paid" stamps.

Recommendation:

The District should stamp "Paid" on invoices immediately after the payment is made to prevent invoices from being submitted more than once for payment.

District Response:

This procedure will be implemented as suggested. It should be noted that when an invoice is paid a warrant is attached.

FINDING 2004-5
PAYROLL
30000

Finding:

During the test of payroll, it was noted that 31 out of 60 current personnel action forms were not present. Furthermore, for 25 out of 60, there were various types of forms (ie. Position Control Form) which showed an authorizing signature and stated the step, range, or position, but each form was missing a vital piece of information such as an authorized district signature, the step the employee was at, the range the employee was at, or the position that the employee was at.

Recommendation:

The District should keep a current personnel action form in every employees' personnel file. In addition, the District should examine the various types of forms that show what the District employees should be paid and determine what type of information needs to be present on the various forms in order to clarify the amount the employees should be paid.

District Response:

Personnel action form procedures will be reviewed and greater attention to detail will be expected. All forms will be reviewed and not processed until all information is completed and authorized.

FINDING 2004-6
PAYROLL
30000

Finding:

The test of payroll showed that 16 out of 60 I-9 forms examined were not completely filled out and in addition there were no District approval signatures present on these I-9 forms.

Recommendation:

The District should review all the I-9 forms to determine that they are correctly filled out. An authorized District employee should sign the I-9 forms after reviewing to verify that the forms are valid.

District Response:

We will review Personnel practices and implement the suggested improvement.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section II- Financial Statement Findings (Continued):

FINDING 2004-7

PAYROLL

30000

Finding:

The test of payroll showed that employee signatures were not present for 10 out of 60 timecards.

Recommendation:

The District should require all timecards be signed by the employee in order to prevent future disagreements regarding the amount of hours the employee was paid for.

District Response:

When an employee is not at work on the last day in the pay period, his/her time card is submitted unsigned so as to not delay payment. We will implement procedures to obtain signatures on all timecards.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section III – Federal Award Findings and Questioned Costs

FINDING 2004-8
INVENTORY
50000

Finding:

The District has established the use of data entry sheets and tags to track equipment purchases/additions. These sheets and the related reports contain all information, including funding source, which would be required by federal grantors. However, the District has not generated or reconciled any detailed fixed assets listing for equipment purchased with federal funds prior to the 2002/2003 fiscal year.

Recommendation:

A new equipment inventory listing should be implemented that includes the items which were acquired using federal funds prior to the 2002/2003 fiscal year separately identified.

Questioned Costs:

Unknown

District Response:

The inventory was completed but has not been reconciled due to staff shortages. The District shall consider various staffing alternatives to arrange for a responsible staff member to maintain the fixed assets inventory.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section IV – State Award Finding and Questioned Costs

FINDING 2004-9
STAFF DEVELOPMENT
40000

Finding:

The District did not submit the correct number of eligible classroom teachers on the 2003-2004 Instructional Time and Staff Development Reform (ITSDR) Program Consolidated Application. The total number of eligible classroom teachers per the District's staff development teacher attendance worksheets was recounted, noting the District over reported the total number of eligible classroom teachers.

Recommendation:

The District should review and compare the Staff Development Consolidated Application to District worksheets. The District should re-submit a corrected Staff Development Consolidated Application.

Questioned Costs:

Fifty one days with a daily rate of \$299.29, for a total of \$15,263.79.

District Response:

The District will re-submit a corrected Staff Development Consolidated Application. The District will review current Staff Development accounting procedures and implement corrective actions.

Section II- Financial Statement Findings

FINDING 2003-1
INTERNAL CONTROL
30000 & 60000

Finding:

A review of the District's revolving fund disclosed that check disbursements required only one signature. In addition, there were numerous occasions where the one signature was represented by a "signature stamp".

Recommendation:

All checks should require two signatures to clear the bank. One signature can be via use of a signature stamp if absolutely necessary. However, one signature should always be wet (original).

Status:

Not implemented. See Finding 2004-1.

FINDING 2003-2
RESERVE REQUIREMENT
60000

Finding:

The District has continued to deplete its available General Fund reserve balance. Specifically, over the past several years we have noted a District trend to "deficit spend" and balance the year's budget through use of "one-time" revenues. Our review of the District's projected budget and current cash flow position indicate that many areas of District operations require resolution and careful future planning. These areas include:

1. Current commitments and debt service obligations which burden future cash flow to the extent a multi-year fiscal plan for repayment is required.
2. Resolution of Special Education cost and related General Fund encroachment.

Recommendation:

The District needs carefully designed fiscal plans to address all issues, including those discussed above. The District should work on management plans to project future cash flows and create reserves to fully fund liabilities and commitments. The District should also continue to work on management plans and continue to establish and monitor present and future cash flow requirement to assure the District does not continue to deficit spend or use one-time money to balance the budget.

Status:

Implemented.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2004

Section III – Federal Award Findings and Questioned Costs

FINDING 2003-3

INVENTORY

50000 & 20000

Finding:

The District has established the use of data entry sheets and tags to track equipment purchases/additions. These sheets and the related reports contain all information, including fund source, which would be required by federal grantors. However, the District has not generated or reconciled any detailed fixed assets listing for equipment purchased with federal fund prior to the 2002/2003 fiscal year.

Recommendation:

A new equipment inventory listing should be implemented that includes the items which were acquired using federal funds prior to the 2002/2003 fiscal year separately identified.

Status:

Not Implemented. See Finding 2004-8.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2004

Section IV – State Award Findings and Questioned Costs

FINDING 2003-4
STATE COMPLIANCE
10000 & 40000

Finding:

While testing the attendance procedure, the following findings were noted:

Grand View Elementary School

1. Two contracts for a total of 29 days had not been signed by the pupil, parent/guardian, and/or administrator.
2. One student for a total of 22 days did not have a contract.
3. The contracts tested for a total of 67 days were not signed by a teacher and/or administrator.

Penekamp Elementary School

1. While testing the kindergarten continuation, the kindergarten continuation form did not comply with the State requirements.

Mira Costa High School

1. One of the State requirements for attendance accounting is that the school site maintains the records used to verify the students' absences. The most common means is to retain the notes from the parents and to maintain a telephone log or call-in slips filed in each student's attendance file.

If phone slips are to be utilized by a school site, which is the case at Mira Costa High School, they must contain certain required elements including:

- Name of the student
- Date(s) of the absence
- Reason for the absence
- Person's name and relationship to the student contacting the school to verify the absence
- District personnel's name or initials that received the absence verification.

At Mira Costa High School, the District Personnel are not always completing the phone slips with the last requirement listed above. We selected 20 students at random and out of a total of 150 phone slips reviewed, seven of the phone slips did not list the school site personnel name or initials on the phone slip for verification of the absence.

Recommendation:

The District should provide and instruct school sites on the required format for kindergarten continuation. In addition, the District should amend their State Attendance Reports to exclude the 1.00 ADA claimed for the kindergarten continuation pupils identified with noncompliant forms. Also, phone slips at Mira Costa High School should be completed with the school site's personnel's name or initials, evidencing the verification of the absences.

Status:

Implemented.