

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

**AUDIT REPORT
June 30, 2005**

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT

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June 30, 2005

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FINANCIAL SECTION

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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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, the Special Reserve Fund, and the Cafeteria 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 29, 2005, 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 29, 2005

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, 2005. 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 \$58.3 million and expenditures of \$57.6 million, leaving a positive balance of \$0.7 million. Net assets totaled \$ 2.5 million. Net assets are down from last year, by \$1.6 million.

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 explain 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.

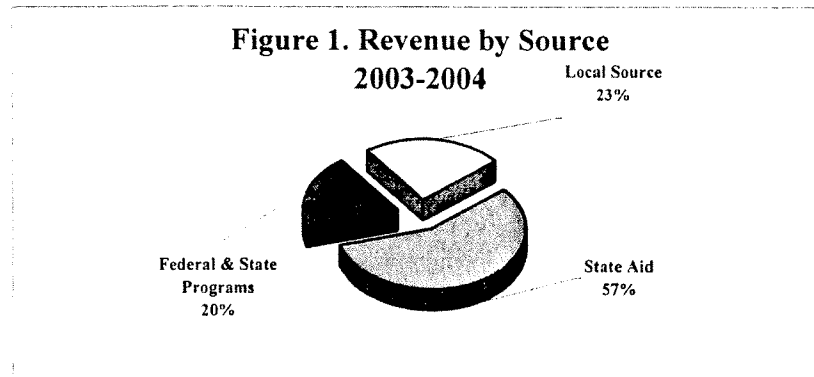
We use internal service funds to report activities that provide supplies and services for the District's other programs and activities. The district currently has one internal service fund-the employee insurance fund.

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.

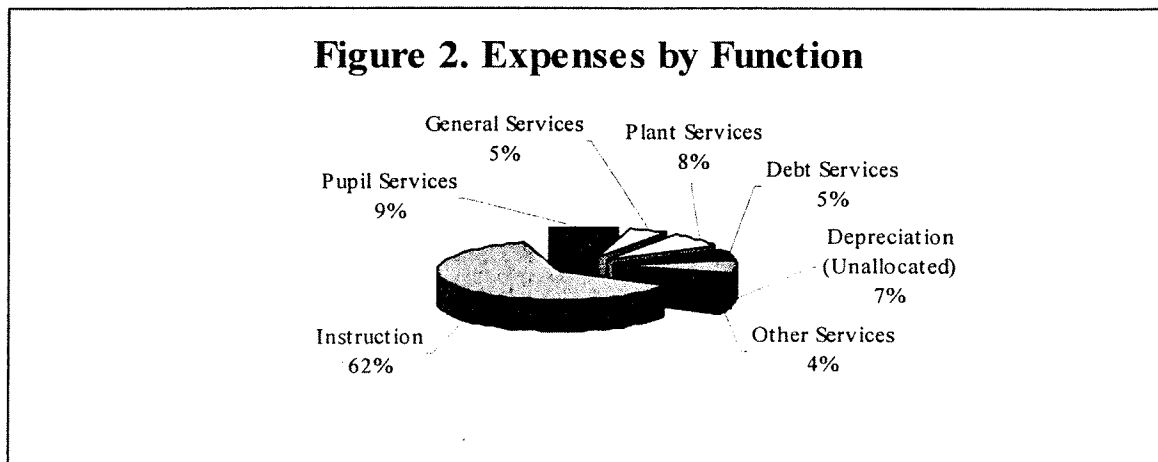
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets totaled \$2.6 million. The capital assets report shows a total value of \$110.9 million, less \$25.1 million of accumulated depreciation. The total of District's revenues was \$58.3 million. Property taxes and state formula aid accounted for 57 percent of the District's revenues (See Figure 1.) Another 20 percent came from state and federal aid for specific programs, and the remainder 23 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 5 percent of total costs.



Governmental Activities

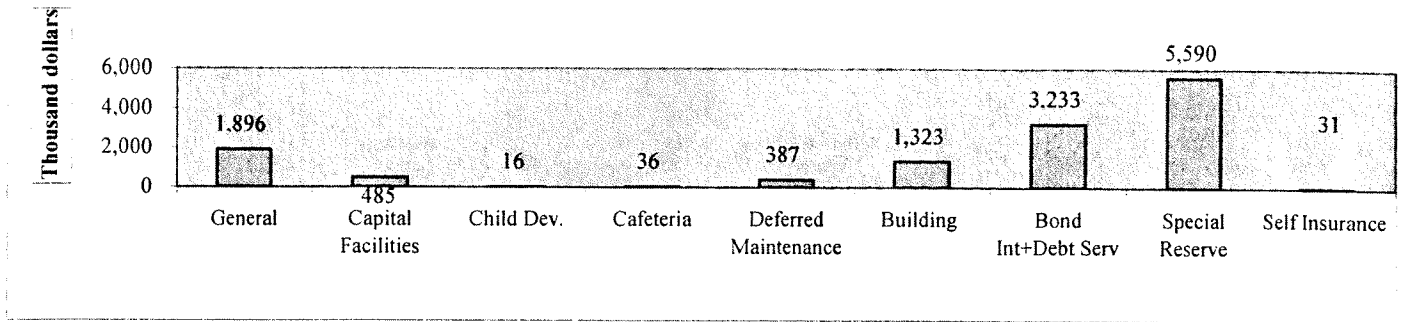
The six major District activities were Instruction - Guidance - Counseling - Evaluation, School Leadership, Student Transportation, Administration, Maintenance and Operations, and Debt Services. The Statement of Activities also shows each activity's net cost.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$14.2 million. Most of the District's governmental funds had more revenues than expenditures in 2004-2005, thereby contributing to the increase in total fund balance. Two funds, the Cafeteria Fund and the Building Fund, did show a decrease in fund balance as construction projects were completed and a new cafeteria program was instituted.

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 2005, the District had invested \$ 110.9 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 \$2.3 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, 2005

Assets	<u>Governmental Activities</u>
Cash in county treasury	\$ 13,948,782
Revolving cash fund	13,109
Cash in bank and on hand	485,584
Cash and investments with fiscal agent	1,031,582
Accounts receivable	4,534,749
Inventories, at cost	120,913
Prepaid items	145,174
Deferred loss on refunding, net of accumulated amortization	1,338,888
Debt issuance costs, net of accumulated amortization	123,534
Land	3,909,383
Construction in progress	21,250
Land improvements	3,504,323
Buildings	99,983,350
Equipment	3,478,681
Less accumulated depreciation	<u>(25,125,990)</u>
Total Assets	<u>107,513,312</u>
 Liabilities	
Accounts payable	5,417,427
Interest payable	564,839
Deferred revenue	599,167
Long-term liabilities:	
Due within one year:	
General obligation bonds payable	2,438,706
Certificates of participation payable	670,000
Postemployment benefits	10,400
Early retirement incentives	95,804
Settlement agreement payable	<u>282,913</u>
Total due within one year	<u>10,079,256</u>
Due after one year:	
Interest payable	16,883,187
General obligation bonds payable	62,565,182
Certificates of participation payable	14,115,000
Postemployment benefits	25,260
Early retirement incentives	119,755
Settlement agreement payable	782,912
Compensated absences payable	<u>397,339</u>
Total due after one year	<u>94,888,635</u>
Total Liabilities	<u>104,967,891</u>
 Net Assets	
Invested in capital assets, net of related debt	7,444,531
Restricted for:	
Capital projects	3,047,703
Unrestricted	<u>(7,946,813)</u>
Total net assets	<u><u>\$ 2,545,421</u></u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 33,347,815	\$ 274,876	\$ 6,174,450	\$ 1,239,423
Instruction-related services:				
Supervision of instruction	802,535	11,961	401,741	
Instructional library, media, and technology	355,886	1,559	281,376	
School site administration	2,689,596	1,046	176,354	
Pupil services:				
Home-to-school transportation	370,991	10,725	98,173	
Food services	2,244,632		163,424	
All other pupil services	2,824,054	47,326	776,055	
General administration:				
Data processing	489,784			
All other general administration	2,661,522	19,478	267,853	
Plant services	4,632,287	465	432,470	
Ancillary services	877,509	3,213	537,391	
Interest on long-term debt	4,427,291			
Other outgo	1,954,344	119,834	443,538	
Depreciation (unallocated)	2,260,993			
Total governmental activities	<u>\$ 59,939,239</u>	<u>\$ 490,483</u>	<u>\$ 9,752,825</u>	<u>\$ 1,239,423</u>

General revenues:

Taxes and subventions:

 Taxes levied for general purposes

 Taxes levied for debt service

Federal and state aid not restricted to specific purposes

Interest and investment earnings

Interagency revenues

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

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets
\$ (25,659,066)
(388,833)
(72,951)
(2,512,196)
(262,093)
(2,081,208)
(2,000,673)
(489,784)
(2,374,191)
(4,199,352)
(336,905)
(4,427,291)
(1,390,972)
<u>(2,260,993)</u>
<u>(48,456,508)</u>
17,922,657
3,487,401
19,027,736
262,564
9,000
<u>6,070,622</u>
<u>46,779,980</u>
<u>(1,676,528)</u>
4,717,755
<u>(495,806)</u>
<u>4,221,949</u>
<u>\$ 2,545,421</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2005

	General Fund	Special Reserve Fund	Cafeteria Fund	Building Fund
Assets				
Cash in county treasury	\$ 3,183,505	\$ 4,819,959	\$ 24,829	\$ 319,289
Revolving cash fund	10,000		3,109	
Cash in bank and on hand			485,584	
Cash and investments with fiscal agent				1,006,408
Accounts receivable:				
Federal and state governments	2,803,819		30,923	
Other	1,165,842	46,200	235,714	2,559
Inventory, at cost	90,150		30,763	
Prepaid items	145,174			
Due from other funds		724,200		
Total assets	\$ 7,398,490	\$ 5,590,359	\$ 810,922	\$ 1,328,256
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 4,903,088	\$ -	\$ 240,351	\$ 5,186
Deferred revenue	599,167			
Due to other funds			534,200	
Total liabilities	5,502,255		774,551	5,186
Fund balances:				
Reserved for revolving fund	10,000		3,109	
Reserved for inventory	90,150		30,763	
Reserved for prepaid items	145,174			
Reserved for debt service				
Unreserved:				
Undesignated	1,650,911	5,590,359	2,499	1,323,070
Total fund balances	1,896,235	5,590,359	36,371	1,323,070
Total liabilities and fund balances	\$ 7,398,490	\$ 5,590,359	\$ 810,922	\$ 1,328,256

See notes to basic financial statements

Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,233,388	\$ 2,335,714	\$ 13,916,684
		13,109
		485,584
	25,174	1,031,582
		2,834,742
	249,407	1,699,722
		120,913
		145,174
		724,200
<u>\$ 3,233,388</u>	<u>\$ 2,610,295</u>	<u>\$ 20,971,710</u>
\$ -	\$ 267,550	\$ 5,416,175
		599,167
	190,000	724,200
	457,550	6,739,542
		13,109
		120,913
		145,174
3,233,388		3,233,388
	2,152,745	10,719,584
<u>3,233,388</u>	<u>2,152,745</u>	<u>14,232,168</u>
<u>\$ 3,233,388</u>	<u>\$ 2,610,295</u>	<u>\$ 20,971,710</u>

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances - governmental funds \$ 14,232,168

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	\$ 110,896,987	
Accumulated depreciation	<u>(25,125,990)</u>	
Net		85,770,997

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. (17,448,026)

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. 123,534

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. 1,338,888

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	\$ (65,003,888)	
Certificates of participation payable	(14,785,000)	
Postemployment benefits	(35,660)	
Early retirement incentives	(215,559)	
Settlement agreement payable	(1,065,825)	
Compensated absences payable	<u>(397,339)</u>	
Total		(81,503,271)

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. 31,131

Total net assets, governmental activities \$ 2,545,421

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2005

	General Fund	Special Reserve Fund	Cafeteria Fund	Building Fund
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 14,932,057	\$ -	\$ -	\$ -
Local sources	18,078,096			
Federal	1,373,987		156,323	
Other state	7,434,029		7,101	
Other local	5,286,322	131,401	1,849,949	33,732
	<u>47,104,491</u>	<u>131,401</u>	<u>2,013,373</u>	<u>33,732</u>
Total revenues				
Expenditures:				
Certificated salaries	23,156,702		8,509	
Classified salaries	6,730,493		753,118	
Employee benefits	7,222,325		204,995	
Books and supplies	2,084,607		911,537	
Contracted services and other operating expenses	6,950,564		195,246	4,946
Capital outlay				859,488
Other outgo	885,846			
Debt service	26,389			917,125
	<u>47,056,926</u>		<u>2,073,405</u>	<u>1,781,559</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>47,565</u>	<u>131,401</u>	<u>(60,032)</u>	<u>(1,747,827)</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets				198,000
Transfers in	1,457,387	198,000		
Transfers out	(408,087)	(1,457,387)		(198,099)
	<u>1,049,300</u>	<u>(1,259,387)</u>		<u>(99)</u>
Total other financing sources (uses)				
Excess of revenues and other sources over (under) expenditures and other uses	<u>1,096,865</u>	<u>(1,127,986)</u>	<u>(60,032)</u>	<u>(1,747,926)</u>
Fund balances, July 1, 2004	1,367,030	6,718,345	96,403	3,070,996
Prior year adjustments	(567,660)			
Fund balances, July 1, 2004, restated	<u>799,370</u>	<u>6,718,345</u>	<u>96,403</u>	<u>3,070,996</u>
Fund balances, June 30, 2005	<u>\$ 1,896,235</u>	<u>\$ 5,590,359</u>	<u>\$ 36,371</u>	<u>\$ 1,323,070</u>

See notes to basic financial statements

Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 14,932,057
		18,078,096
	24,335	1,554,645
22,521	2,383,796	9,847,447
3,495,713	3,052,492	13,849,609
<u>3,518,234</u>	<u>5,460,623</u>	<u>58,261,854</u>
	826,337	23,991,548
	1,105,090	8,588,701
	628,259	8,055,579
	263,304	3,259,448
	322,113	7,472,869
	28,446	887,934
		885,846
3,186,971	288,863	4,419,348
<u>3,186,971</u>	<u>3,462,412</u>	<u>57,561,273</u>
		700,581
331,263	1,998,211	198,000
	408,186	2,063,573
		(2,063,573)
	408,186	198,000
<u>331,263</u>	<u>2,406,397</u>	<u>898,581</u>
2,902,125	(253,652)	13,901,247
		(567,660)
<u>2,902,125</u>	<u>(253,652)</u>	<u>13,333,587</u>
<u>\$ 3,233,388</u>	<u>\$ 2,152,745</u>	<u>\$ 14,232,168</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, 2005

Total net change in fund balances - governmental funds	\$ 898,581
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:</p>	
Expenditures for capital outlay	\$ 925,628
Depreciation expense	<u>(2,260,993)</u>
Net	(1,335,365)
<p>In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:</p>	
	(290,880)
<p>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.</p>	
	2,825,000
<p>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:</p>	
	(2,733,174)
<p>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.</p>	
	(7,225)
<p>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 earned exceeded vacation paid by \$23,424.</p>	
	(23,424)
<p>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 more than the amounts earned by \$155,553.</p>	
	155,553
<p>In the statement of activities, structure legal settlement must be accrued in the year incurred. In governmental funds, however, such settlement is recoognized when paid.</p>	
	(1,065,825)
<p>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.</p>	
	(5,259)
<p>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.</p>	
	<u>(94,510)</u>
Changes in net assets of governmental activities	<u>\$ (1,676,528)</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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State apportionments	\$ 14,024,559	\$ 13,613,333	\$ 14,932,057	\$ 1,318,724
Local sources	19,019,797	19,023,195	18,078,096	(945,099)
Federal	1,118,099	1,561,676	1,373,987	(187,689)
Other state	6,425,362	7,316,620	7,434,029	117,409
Other local	3,738,228	5,320,269	5,286,322	(33,947)
Total revenues	<u>44,326,045</u>	<u>46,835,093</u>	<u>47,104,491</u>	<u>269,398</u>
Expenditures:				
Certificated salaries	22,842,242	23,020,705	23,156,702	(135,997)
Classified salaries	6,390,588	6,504,493	6,730,493	(226,000)
Employee benefits	7,128,994	7,297,341	7,222,325	75,016
Books and supplies	1,222,428	2,799,609	2,084,607	715,002
Contracted services and other operating expenses	5,639,320	7,666,062	6,950,564	715,498
Capital outlay		116,369		116,369
Other outgo	575,665	943,058	885,846	57,212
Debt service	397,600	397,600	26,389	371,211
Total expenditures	<u>44,196,837</u>	<u>48,745,237</u>	<u>47,056,926</u>	<u>1,688,311</u>
Excess of revenues over (under) expenditures	<u>129,208</u>	<u>(1,910,144)</u>	<u>47,565</u>	<u>1,957,709</u>
Other Financing Sources (Uses):				
Transfers in	1,457,387	2,693,663	1,457,387	(1,236,276)
Transfers out	(135,630)	(135,630)	(408,087)	(272,457)
Total other financing sources (uses)	<u>1,321,757</u>	<u>2,558,033</u>	<u>1,049,300</u>	<u>(1,508,733)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>1,450,965</u>	<u>647,889</u>	<u>1,096,865</u>	<u>448,976</u>
Fund balance, July 1, 2004	1,367,030	1,367,030	1,367,030	
Prior year adjustments			(567,660)	(567,660)
Fund balance, July 1, 2004, restated	<u>1,367,030</u>	<u>1,367,030</u>	<u>799,370</u>	<u>(567,660)</u>
Fund balance, June 30, 2005	<u>\$ 2,817,995</u>	<u>\$ 2,014,919</u>	<u>\$ 1,896,235</u>	<u>\$ (118,684)</u>

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Other local	\$ 135,630	\$ 135,630	\$ 131,401	\$ (4,229)
Total revenues	135,630	135,630	131,401	(4,229)
Excess of revenues over (under) expenditures	135,630	135,630	131,401	(4,229)
Other Financing Sources (Uses):				
Transfers in		198,000	198,000	
Transfers out	(1,457,387)	(2,693,663)	(1,457,387)	1,236,276
Total other financing sources (uses)	(1,457,387)	(2,495,663)	(1,259,387)	1,236,276
Excess of revenues and other sources over (under) expenditures and other uses	(1,321,757)	(2,360,033)	(1,127,986)	1,232,047
Fund balance, July 1, 2004	6,718,345	6,718,345	6,718,345	
Fund balance, June 30, 2005	\$ 5,396,588	\$ 4,358,312	\$ 5,590,359	\$ 1,232,047

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAFETERIA FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal	176,300	\$ 176,300	\$ 156,323	\$ (19,977)
Other state	8,500	8,500	7,101	(1,399)
Other local	1,700,010	1,700,010	1,849,949	149,939
Total revenues	<u>1,884,810</u>	<u>1,884,810</u>	<u>2,013,373</u>	<u>128,563</u>
Expenditures:				
Certificated salaries	8,211	8,211	8,509	(298)
Classified salaries	771,605	771,605	753,118	18,487
Employee benefits	200,519	200,519	204,995	(4,476)
Books and supplies	828,000	828,000	911,537	(83,537)
Contracted services and other operating expenses	53,675	53,675	195,246	(141,571)
Total expenditures	<u>1,862,010</u>	<u>1,862,010</u>	<u>2,073,405</u>	<u>(211,395)</u>
Excess of revenues over (under) expenditures	22,800	22,800	(60,032)	(82,832)
Fund balances, July 1, 2004	<u>96,403</u>	<u>96,403</u>	<u>96,403</u>	
Fund balances, June 30, 2005	<u>\$ 119,203</u>	<u>\$ 119,203</u>	<u>\$ 36,371</u>	<u>\$ (82,832)</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
 June 30, 2005

	Governmental Activities <u>Internal Service Fund</u> <u>Self-Insurance Fund</u>
Assets	
Cash in county treasury	\$ 32,098
Accounts receivable:	
Other	<u>285</u>
Total assets	<u>32,383</u>
Liabilities	
Accounts payable	<u>1,252</u>
Total liabilities	<u>1,252</u>
Net assets	
Unrestricted	<u>31,131</u>
Total net assets	<u><u>\$ 31,131</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, 2005

	Governmental Activities
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Operating Expenses:	
Books and supplies	\$ 7,492
Contracted services and other operating expenses	<u>590</u>
Total expenses	<u>8,082</u>
Operating income (loss)	(8,082)
Non-operating Revenues (Expenses)	
Interest income	<u>857</u>
Change in net assets	(7,225)
Net assets, July 1, 2004	<u>38,356</u>
Net assets, June 30, 2005	<u><u>\$ 31,131</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, 2005

	Governmental Activities
	<u>Internal Service Fund</u>
	<u>Self-Insurance Fund</u>
Cash Flows from Operating Activities:	
Cash paid for books and supplies	\$ (6,240)
Cash paid for contracted services and other operating expenses	<u>(590)</u>
Net cash provided (used) by operating activities	(6,830)
Cash Flows from Investing Activities:	
Interest received	<u>701</u>
Net increase (decrease) in cash and cash equivalents	(6,129)
Cash and cash equivalents at July 1, 2004	<u>38,227</u>
Cash and cash equivalents at June 30, 2005	<u><u>\$ 32,098</u></u>

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

Operating income (loss)	\$ (8,082)
Increase (decrease) in operating liabilities	
Accounts payable	<u>1,252</u>
Net cash provided (used) by operating activities	<u><u>\$ (6,830)</u></u>

See notes to basic financial statements

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
STATEMENT FIDUCIARY OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	Pension Trust Fund	Agency Funds		Totals
	Retiree Benefits Fund	Payroll Clearance Fund	Student Body Funds	
Assets				
Cash in county treasury	\$ 955,415	\$ (357,514)	\$ -	\$ 597,901
Cash on hand and in banks			334,726	334,726
Accounts receivable:				
Other	7,719		1,318	9,037
Prepaid items		357,514		357,514
Total assets	963,134		336,044	1,299,178
Liabilities				
Accounts payable	658,054			658,054
Due to student groups			336,044	336,044
Total liabilities	658,054		336,044	994,098
Net Assets				
Unrestricted	305,080			305,080
Total net assets	\$ 305,080	\$ -	\$ -	\$ 305,080

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, 2005

	Pension Trust Fund
	<u>Retiree Benefits Fund</u>
Additions	
Other local	<u>\$ 22,693</u>
Deductions	
Benefits	<u>96,004</u>
Changes in net assets	(73,311)
Net assets, July 1, 2004	<u>378,391</u>
Net assets, June 30, 2005	<u><u>\$ 305,080</u></u>

See notes to basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

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 Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.

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 two nonmajor special revenue funds:

1. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
2. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

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).

Capital Projects Funds are used to account for the acquisition and/or construction of governmental capital assets. The District maintains two 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).

The County School Facilities Fund is used to account for State apportionment provided by SB 50, Proposition 1A bond money.

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:

Pension Trust Funds are used to account for assets held by the District as trustee. The District maintains one pension 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, the Special Reserve Fund, and the Cafeteria 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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

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.

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

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

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.

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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Assets, Liabilities, and Equity (Continued)

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.

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

The District's cash and investments at June 30, 2005, consisted of the following:

Cash in banks	\$	833,419
Cash and investments with County Treasurer		14,546,683
Cash and investments with fiscal agent		1,031,582
		<hr/>
Total cash and investments	\$	<u>16,411,684</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash in County Treasury, statement of net assets	\$	13,948,782
Cash in revolving fund, statement of net assets		13,109
Cash on hand and in bank, statement of net assets		485,584
Cash and investments with fiscal agent, statement of net assets		1,031,582
Cash in County Treasury, statement of fiduciary net assets		597,901
Cash on hand and in bank, statement of fiduciary net assets		334,726
		<hr/>
Total cash and investments	\$	<u>16,411,684</u>

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 (\$14,546,683 as of June 30, 2005). The fair value of this pool as of that date, as provided by the plan sponsor, was \$14,546,683. 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 balance on hand and in banks (\$820,310 as of June 30, 2005) and in the revolving fund (\$13,109) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Los Angeles. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provision of these debt agreements that address **interest rate risk** and **concentration of credit risk**.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit with Bank of Savings & Loans	360 days	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Mortgage Backed Security, Prime Quality	None	None	None
Municipal Obligations	None	None	None
Commercial Paper, Prime Quality	270 days	None	None

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None
Guaranteed Investment Contract	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Los Angeles County Investment Pool	\$ 14,546,683	\$ 14,546,683	\$ -	\$ -	\$ -
Held by COP Trustees: Investment Money Market Funds	1,031,582	1,031,582			
Total	\$ 15,578,265	\$ 15,578,265	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Los Angeles County Investment Pool	\$ 14,546,683	N/A	\$ -	\$ -	\$ -	\$ -	\$ 14,546,683
Held by COP Trustees: Money Markets Funds	1,031,582						1,031,582
Total	\$ 15,578,265		\$ -	\$ -	\$ -	\$ -	\$ 15,578,265

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allow financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2005, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Los Angeles County Investment Pool).

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:	
Certificated salaries	\$ 135,997
Classified salaries	\$ 226,000
Cafeteria Fund:	
Certificated salaries	\$ 298
Employee benefits	\$ 4,476
Books and supplies	\$ 83,537
Contracted services and other operating expenses	\$ 141,571
<u>Nonmajor Funds</u>	
Child Development Fund:	
Certificated salaries	\$ 23,224
Classified salaries	\$ 64,869

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS (Continued)

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

<u>Fund</u>	<u>Excess Expenditures</u>
<u>Nonmajor Funds</u>	
Child Development Fund:	
Employee benefits	\$ 32,907
Contracted services and other operating expenses	\$ 22,727
Corporate Debt Service Fund:	
Debt service	\$ 288,863
Capital Facilities Fund:	
Contracted services and other operating expenses	\$ 4,931

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consist of the following:

	<u>General Fund</u>	<u>Special Reserve Fund</u>	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Internal Service Fund - Self-Insurance Fund</u>	<u>Pension Trust Fund - Retiree Benefits Fund</u>	<u>Agency Fund - Student Body</u>
Federal Government:								
Federal programs	\$ 183,890	\$ -	\$ 29,624	\$ -	\$ -	\$ -	\$ -	\$ -
State Government:								
Apportionment	1,065,112							
Categorical aid programs	1,089,190		1,299					
Lottery	465,627							
Local Sources:								
Interest	21,652	46,200		2,559	16,816	285	7,719	
Miscellaneous	<u>1,144,190</u>		<u>235,714</u>		<u>232,591</u>			<u>1,318</u>
Totals	<u>\$ 3,969,661</u>	<u>\$ 46,200</u>	<u>\$ 266,637</u>	<u>\$ 2,559</u>	<u>\$ 249,407</u>	<u>\$ 285</u>	<u>\$ 7,719</u>	<u>\$ 1,318</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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
<u>Major Funds:</u>		
Special Reserve Fund	\$ 724,200	\$ -
Cafeteria Fund		534,200
<u>Nonmajor Funds:</u>		
Child Development Fund		190,000
Totals	<u>\$ 724,200</u>	<u>\$ 724,200</u>

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 2004-2005 fiscal year are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Major Funds:</u>		
General Fund	\$ 1,457,387	\$ 408,087
Special Reserve Fund	198,000	1,457,387
Building Fund		198,099
<u>Nonmajor Funds:</u>		
Deferred Maintenance Fund	135,630	
Corporate Debt Service Fund	<u>272,556</u>	
Totals	<u>\$ 2,063,573</u>	<u>\$ 2,063,573</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, is shown below:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 3,909,383	\$ -	\$ -	\$ 3,909,383
Construction in progress	11,095,069	21,250	11,095,069	21,250
Total capital assets, not being depreciated	<u>\$ 15,004,452</u>	<u>\$ 21,250</u>	<u>\$ 11,095,069</u>	<u>\$ 3,930,633</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2005, is shown below:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets, being depreciated:				
Land improvements	\$ 3,133,700	\$ 370,623		\$ 3,504,323
Buildings	88,727,216	11,628,824	372,690	99,983,350
Equipment	3,478,681			3,478,681
Total capital assets, being depreciated	<u>95,339,597</u>	<u>11,999,447</u>	<u>372,690</u>	<u>106,966,354</u>
Less accumulated depreciation:				
Land improvements	1,876,519	87,675		1,964,194
Buildings	18,309,881	2,002,693	81,810	20,230,764
Equipment	2,760,407	170,625		2,931,032
Total accumulated depreciation	<u>22,946,807</u>	<u>2,260,993</u>	<u>81,810</u>	<u>25,125,990</u>
Total capital assets, being depreciated, net	<u>\$ 72,392,790</u>	<u>\$ 9,738,454</u>	<u>\$ 290,880</u>	<u>\$ 81,840,364</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

 Unallocated \$ 2,260,993

NOTE 7 – BONDED DEBT

The outstanding general obligation bonded debt of the Manhattan Beach Unified School District at June 30, 2005, is:

Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Amount of Capital Appreciation Bonds Included in Original Issue	Balance Outstanding July 1, 2004	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Balance Outstanding June 30, 2005
1996A	3.60%-5.65%	2020	\$ 25,184,723	\$ 13,019,723	\$ 18,034,723	\$ -	\$ 1,535,000	\$ 16,499,723
1998B	4.50%-5.25%	2023	6,000,501	6,000,501	6,000,501			6,000,501
1999C	3.50%-5.87%	2024	5,000,040	4,010,039	4,780,040		155,000	4,625,040
2001D	3.00%-5.33%	2025	5,148,769	4,263,769	5,098,769		45,000	5,053,769
2001A	4.00%-5.69%	2026	21,513,829	4,628,829	4,628,829			4,628,829
2002B	3.00%-5.57%	2026	4,485,101	1,940,101	4,295,101		250,000	4,045,101
2002E	3.10%-5.57%	2026	5,940,925	4,525,925	5,940,925			5,940,925
2004	2.00%-4.00%	2019	18,400,000		18,400,000		190,000	18,210,000
			<u>\$ 91,673,888</u>	<u>\$ 38,388,887</u>	<u>\$ 67,178,888</u>	<u>\$ -</u>	<u>\$ 2,175,000</u>	<u>\$ 65,003,888</u>

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

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 7 – BONDED DEBT (Continued)

Defeased 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, 2005 was \$16,750,000.

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.

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2005, are as follows:

Fiscal Years Ending June 30,	1996A Issue		1998B Issue	
	Principal	Interest	Principal	Interest
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	27,405	17,595
2010	1,037,197	1,122,705	54,866	40,134
2011-2015	4,782,910	6,887,188	646,762	713,238
2016-2020	4,228,641	9,761,360	1,214,672	2,105,327
2021-2025	799,205	2,335,794	3,967,185	10,502,816
	<u>\$ 16,499,723</u>	<u>\$ 22,102,742</u>	<u>\$ 6,000,501</u>	<u>\$ 13,419,499</u>

Fiscal Years Ending June 30,	1999C Issue		2001D Issue	
	Principal	Interest	Principal	Interest
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	191,413	153,587	170,000	10,645
2011-2015	853,964	986,036	800,429	573,321
2016-2020	718,888	1,371,113	975,054	1,454,947
2021-2025	2,048,517	6,710,983	872,921	1,987,079
2026			1,815,365	5,124,635
	<u>\$ 4,625,040</u>	<u>\$ 9,405,214</u>	<u>\$ 5,053,769</u>	<u>\$ 9,240,151</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 7 - BONDED DEBT (Continued)

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2005, are as follows (Continued):

Fiscal Years Ending June 30,	2001A Issue		2002B Issue	
	Principal	Interest	Principal	Interest
2006	\$ -	\$ -	\$ 290,000	\$ 65,105
2007			340,000	55,655
2008			395,000	44,433
2009			420,000	31,380
2010			305,000	19,113
2011-2015			355,000	80,783
2016-2020			305,797	519,824
2021-2025	3,596,172	9,648,828	685,096	1,862,580
2026-2027	1,032,657	3,587,343	949,208	2,485,428
	<u>\$ 4,628,829</u>	<u>\$ 13,236,171</u>	<u>\$ 4,045,101</u>	<u>\$ 5,164,301</u>

Fiscal Years Ending June 30,	2002E Issue		2004 Issue	
	Principal	Interest	Principal	Interest
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	205,000	35,363	590,000	677,441
2011-2015	920,327	169,350	6,210,000	2,881,212
2016-2020	333,283	461,717	10,270,000	1,101,790
2021-2025	245,671	559,329		
2026-2027	3,846,644	11,288,356		
	<u>\$ 5,940,925</u>	<u>\$ 12,707,550</u>	<u>\$ 18,210,000</u>	<u>\$ 7,449,703</u>

Fiscal Years Ending June 30,	Totals	
	Principal	Interest
2006	\$ 2,438,706	\$ 1,004,575
2007	2,724,460	915,782
2008	2,403,680	1,686,499
2009	2,409,198	1,899,110
2010	2,553,476	2,058,988
2011-2015	14,569,392	12,291,128
2016-2020	18,046,335	16,776,078
2021-2025	12,214,767	33,607,409
2026-2027	7,643,874	22,485,762
	<u>\$ 65,003,888</u>	<u>\$ 92,725,331</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

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, 2005, the principal outstanding was \$10,200,000.

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, 2005, the principal outstanding was \$4,585,000.

The annual requirements to amortize certificates of participation payable, outstanding as of June 30, 2005, are as follows:

Fiscal Years Ending June 30,	2001A Issue		2002B Issue	
	Principal	Interest	Principal	Interest
2006	\$ 455,000	\$ 459,225	\$ 215,000	\$ 128,369
2007	480,000	440,525	215,000	122,104
2008	495,000	421,025	220,000	115,718
2009	510,000	400,925	225,000	109,187
2010	540,000	379,655	230,000	102,510
2011-2015	2,370,000	1,523,797	1,225,000	407,297
2016-2020	3,635,000	713,185	1,365,000	217,719
2021-2023	1,715,000	22,000	890,000	30,690
	<u>\$ 10,200,000</u>	<u>\$ 4,360,337</u>	<u>\$ 4,585,000</u>	<u>\$ 1,233,594</u>

Fiscal Years Ending June 30,	Totals	
	Principal	Interest
2006	\$ 670,000	\$ 587,594
2007	695,000	562,629
2008	715,000	536,743
2009	735,000	510,112
2010	770,000	482,165
2011-2015	3,595,000	1,931,094
2016-2020	5,000,000	930,904
2021-2023	2,605,000	52,690
	<u>\$ 14,785,000</u>	<u>\$ 5,593,931</u>

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Postemployment benefits

In addition to the pension benefits described in Note 13, 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, 2005, 26 retirees met these eligibility requirements and a total of \$35,660 is expected to be paid for these future benefits. For the fiscal year ending June 30, 2005, \$79,749 in postemployment health care benefits was paid by the District under this program.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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, 2005, \$95,804 was paid by the District under this program.

NOTE 10 - SETTLEMENT AGREEMENT PAYABLE

The District accrued a settlement in the amount of \$1,065,825 on a law suit in August, 2005. Pursuant to GASB Statement No. 10, the District accrued the loss because the amount was known and the settlement was probable (actual as of August 3, 2005). The total settlement was \$6,731,650. Of the total settlement the District is responsible to pay \$5,465,825 with the remaining \$1,265,825 paid by the California Department of Education.

The District's \$5,465,825 settlement was funded by an insurance reimbursement in the amount of \$4,400,000, a loan in the amount of \$500,000 from Alliance Risk Management Services (agreement was signed in August, 2005) payable in three yearly installments commencing fiscal year 2007, and the District's general fund in the amount of \$565,825.

NOTE 11 - CHANGES IN LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2005, is shown below:

	Balance July 1, 2004	Prior Period Adjustments	Restated Balance July 1, 2004
Compensated absences	\$ 373,915	\$ -	\$ 373,915
Postemployment benefits	95,409		95,409
Early retirement incentives	383,217	(71,854)	311,363
General obligation bonds	67,178,888		67,178,888
Certificates of participation	15,435,000		15,435,000
Settlement agreement payable			
Unmatured interest payable (Capital appreciation bonds)	13,901,651		13,901,651
Totals	<u>\$ 97,368,080</u>	<u>\$ (71,854)</u>	<u>\$ 97,296,226</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 11 – CHANGES IN LONG-TERM DEBT (Continued)

A schedule of changes in long-term debt for the fiscal year ended June 30, 2005, is shown below:

	Restated Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due within One Year
Compensated absences	\$ 373,915	\$ 23,424	\$ -	\$ 397,339	\$ -
Postemployment benefits	95,409	20,000	79,749	35,660	10,400
Early retirement incentives	311,363		95,804	215,559	95,804
General obligation bonds	67,178,888		2,175,000	65,003,888	2,438,706
Certificates of participation	15,435,000		650,000	14,785,000	670,000
Settlement agreement payable		1,065,825		1,065,825	282,913
Unmatured interest payable (Capital appreciation bonds)	13,901,651	2,992,830		16,894,481	11,294
Totals	<u>\$ 97,296,226</u>	<u>\$ 4,102,079</u>	<u>\$ 3,000,553</u>	<u>\$ 98,397,752</u>	<u>\$ 3,509,117</u>

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.

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.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 12 – JOINT POWER AUTHORITIES (Continued)

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

	ASCIP (Audited) <u>June 30, 2005</u>	SELF (Unaudited) <u>June 30, 2005</u>	CSBSIA (Unaudited) <u>June 30, 2004*</u>
Total assets	\$ 108,715,729	\$ 180,614,745	\$ 7,940,853
Total liabilities	<u>78,635,152</u>	<u>174,685,047</u>	<u>2,603,000</u>
Total Net Assets	<u>\$ 30,080,577</u>	<u>\$ 5,929,698</u>	<u>\$ 5,337,853</u>
Total revenue	\$ 60,670,395	\$ 40,690,082	\$ 4,285,017
Total expenditures	<u>53,712,349</u>	<u>60,625,529</u>	<u>6,491,426</u>
Change in Net Assets	<u>\$ 6,958,046</u>	<u>\$ (19,935,447)</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 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

In August 3, 2005, the District entered into a settlement agreement with a student in the amount of \$6,731,650. The settlement will be paid by the District and the California Department of Education in the amount of \$5,465,825 and \$1,265,825 respectively.

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

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 2002, the estimated remaining liability for these retirees is \$658,054. This liability is reflected in the self funded Retiree Benefits Fund. On June 30, 2005, 29 retirees were eligible and a total of \$96,004 in benefits was paid under this program.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

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 2004-2005 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, 2005, 2004, and 2003, were \$1,908,131, \$1,918,932, and \$1,975,108, 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 2004-2005 was 9.952% 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, 2005, 2004, and 2003, were \$803,676, \$896,644, and \$183,623, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

Prior year adjustments totaling (\$495,806) in the government-wide financial statements were due to an understatement of accounts payable of (\$567,660), and an overstatement of early retirement incentive of \$71,854. A prior year adjustment of (\$567,660) in the general fund was due to an understatement of accounts payable.

NOTE 16 - SUBSEQUENT EVENTS

As mentioned in Note 10, and 13, the District entered into a settlement agreement in the amount of \$6,731,650.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	Deferred Maintenance Fund	Child Development Fund	Totals
Assets			
Cash in county treasury	\$ 385,055	\$ 238,852	\$ 623,907
Accounts receivable:			
Other	2,006	234,575	236,581
 Total assets	 <u>\$ 387,061</u>	 <u>\$ 473,427</u>	 <u>\$ 860,488</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 267,550	\$ 267,550
Due to other funds		190,000	190,000
 Total liabilities		 <u>457,550</u>	 <u>457,550</u>
Fund balances:			
Unreserved:			
Undesignated	387,061	15,877	402,938
 Total fund balances	 <u>387,061</u>	 <u>15,877</u>	 <u>402,938</u>
 Total liabilities and fund balances	 <u>\$ 387,061</u>	 <u>\$ 473,427</u>	 <u>\$ 860,488</u>

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, 2005

	Deferred Maintenance Fund	Child Development Fund	Totals
Revenues:			
Federal	\$ -	\$ 24,335	\$ 24,335
Other state	241,747	920,740	1,162,487
Other local	2,501	2,099,172	2,101,673
Total revenues	<u>244,248</u>	<u>3,044,247</u>	<u>3,288,495</u>
Expenditures:			
Certificated salaries		826,337	826,337
Classified salaries		1,105,090	1,105,090
Employee benefits		628,259	628,259
Books and supplies	2,457	241,980	244,437
Contracted services and other operating expenses	<u>11,455</u>	<u>230,727</u>	<u>242,182</u>
Total expenditures	<u>13,912</u>	<u>3,032,393</u>	<u>3,046,305</u>
Excess of revenues over (under) expenditures	<u>230,336</u>	<u>11,854</u>	<u>242,190</u>
Other Financing Sources (Uses):			
Transfers in	<u>135,630</u>		<u>135,630</u>
Total other financing sources (uses)	<u>135,630</u>		<u>135,630</u>
Excess of revenues and other sources over (under) expenditures and other uses	365,966	11,854	377,820
Fund balances, July 1, 2004	<u>21,095</u>	<u>4,023</u>	<u>25,118</u>
Fund balances, June 30, 2005	<u>\$ 387,061</u>	<u>\$ 15,877</u>	<u>\$ 402,938</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, 2005

	Deferred Maintenance Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Federal	\$ -	\$ -	\$ -
Other state	75,000	241,747	166,747
Other local		2,501	2,501
Total revenues	<u>75,000</u>	<u>244,248</u>	<u>169,248</u>
Expenditures:			
Certificated salaries			
Classified salaries			
Employee benefits			
Books and supplies	50,000	2,457	47,543
Contracted services and other operating expenses	150,000	11,455	138,545
Total expenditures	<u>200,000</u>	<u>13,912</u>	<u>186,088</u>
Excess of revenues over (under) expenditures	<u>(125,000)</u>	<u>230,336</u>	<u>355,336</u>
Other Financing Sources (Uses):			
Transfers in	135,630	135,630	
Total other financing sources (uses)	<u>135,630</u>	<u>135,630</u>	
Excess of revenues and other sources over (under) expenditures and other uses	10,630	365,966	355,336
Fund balances, July 1, 2004	<u>21,095</u>	<u>21,095</u>	
Fund balances, June 30, 2005	<u>\$ 31,725</u>	<u>\$ 387,061</u>	<u>\$ 355,336</u>

Child Development Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ 24,335	\$ 24,335	\$ -	\$ 24,335	\$ 24,335
890,000	920,740	30,740	965,000	1,162,487	197,487
2,022,850	2,099,172	76,322	2,022,850	2,101,673	78,823
2,912,850	3,044,247	131,397	2,987,850	3,288,495	300,645
803,113	826,337	(23,224)	803,113	826,337	(23,224)
1,040,221	1,105,090	(64,869)	1,040,221	1,105,090	(64,869)
595,352	628,259	(32,907)	595,352	628,259	(32,907)
266,000	241,980	24,020	316,000	244,437	71,563
208,000	230,727	(22,727)	358,000	242,182	115,818
2,912,686	3,032,393	(119,707)	3,112,686	3,046,305	66,381
164	11,854	11,690	(124,836)	242,190	367,026
			135,630	135,630	
			135,630	135,630	
164	11,854	11,690	10,794	377,820	367,026
4,023	4,023		25,118	25,118	
\$ 4,187	\$ 15,877	\$ 11,690	\$ 35,912	\$ 402,938	\$ 367,026

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR DEBT SERVICE FUND
BALANCE SHEET
June 30, 2005

	Corporate Debt Service Fund
Assets	
Cash and investments with fiscal agent	\$ 25,174
Total assets	<u>\$ 25,174</u>
Liabilities and Fund Balance	
Fund balance:	
Unreserved:	
Undesignated	<u>25,174</u>
Total fund balance	<u>25,174</u>
Total liabilities and fund balance	<u>\$ 25,174</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, 2005

	Corporate Debt Service Fund
Revenues:	
Other local	\$ 421
Total revenues	<u>421</u>
Expenditures:	
Debt service	<u>288,863</u>
Total expenditures	<u>288,863</u>
Excess of revenues over (under) expenditures	<u>(288,442)</u>
Other Financing Sources (Uses):	
Transfers in	<u>272,556</u>
Total other financing sources (uses)	<u>272,556</u>
Excess of revenues and other sources over (under) expenditures and other uses	(15,886)
Fund balance, July 1, 2004	<u>41,060</u>
Fund balance, June 30, 2005	<u><u>\$ 25,174</u></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, 2005

	Corporate Debt Service Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other local	\$ -	\$ 421	\$ 421
Total revenues		421	421
Expenditures:			
Debt service		288,863	(288,863)
Total expenditures		288,863	(288,863)
Excess of revenues over (under) expenditures		(288,442)	(288,442)
Other Financing Sources (Uses):			
Transfers in		272,556	272,556
Total other financing sources (uses)		272,556	272,556
Excess of revenues and other sources over (under) expenditures and other uses		(15,886)	(15,886)
Fund balance, July 1, 2004	41,060	41,060	
Fund balance, June 30, 2005	<u>\$ 41,060</u>	<u>\$ 25,174</u>	<u>\$ (15,886)</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Totals</u>
Assets			
Cash in county treasury	\$ 482,176	\$ 1,229,631	\$ 1,711,807
Accounts receivable:			
Other	<u>3,034</u>	<u>9,792</u>	<u>12,826</u>
 Total assets	 <u>\$ 485,210</u>	 <u>\$ 1,239,423</u>	 <u>\$ 1,724,633</u>
 Liabilities and Fund Balances			
Fund balances:			
Unreserved:			
Undesignated	<u>485,210</u>	<u>1,239,423</u>	<u>1,724,633</u>
 Total fund balances	 <u>485,210</u>	 <u>1,239,423</u>	 <u>1,724,633</u>
 Total liabilities and fund balances	 <u>\$ 485,210</u>	 <u>\$ 1,239,423</u>	 <u>\$ 1,724,633</u>

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MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	Capital Facilities Fund	County School Facilities Fund	Totals
Revenues:			
Other state	\$ -	\$ 1,221,309	\$ 1,221,309
Other local	932,284	18,114	950,398
Total revenues	<u>932,284</u>	<u>1,239,423</u>	<u>2,171,707</u>
Expenditures:			
Books and supplies	18,867		18,867
Contracted services and other operating expenses	79,931		79,931
Capital outlay	<u>28,446</u>		<u>28,446</u>
Total expenditures	<u>127,244</u>		<u>127,244</u>
Excess of revenues over (under) expenditures	805,040	1,239,423	2,044,463
Fund balances, July 1, 2004	<u>(319,830)</u>		<u>(319,830)</u>
Fund balances, June 30, 2005	<u>\$ 485,210</u>	<u>\$ 1,239,423</u>	<u>\$ 1,724,633</u>

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Capital Facilities Fund		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Other state	\$ -	\$ -	\$ -
Other local	903,000	932,284	29,284
Total revenues	<u>903,000</u>	<u>932,284</u>	<u>29,284</u>
Expenditures:			
Books and supplies	25,000	18,867	6,133
Contracted services and other operating expenses	75,000	79,931	(4,931)
Capital outlay	<u>750,000</u>	<u>28,446</u>	<u>721,554</u>
Total expenditures	<u>850,000</u>	<u>127,244</u>	<u>722,756</u>
Excess of revenues over (under) expenditures	53,000	805,040	752,040
Fund balances, July 1, 2004	<u>(319,830)</u>	<u>(319,830)</u>	
Fund balances, June 30, 2005	<u>\$ (266,830)</u>	<u>\$ 485,210</u>	<u>\$ 752,040</u>

County School Facilities Fund			Totals		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ 1,202,104	\$ 1,221,309	\$ 19,205	\$ 1,202,104	\$ 1,221,309	\$ 19,205
3,400	18,114	14,714	906,400	950,398	43,998
<u>1,205,504</u>	<u>1,239,423</u>	<u>33,919</u>	<u>2,108,504</u>	<u>2,171,707</u>	<u>63,203</u>
			25,000	18,867	6,133
			75,000	79,931	(4,931)
			<u>750,000</u>	<u>28,446</u>	<u>721,554</u>
			<u>850,000</u>	<u>127,244</u>	<u>722,756</u>
1,205,504	1,239,423	33,919	1,258,504	2,044,463	785,959
			<u>(319,830)</u>	<u>(319,830)</u>	
<u>\$ 1,205,504</u>	<u>\$ 1,239,423</u>	<u>\$ 33,919</u>	<u>\$ 938,674</u>	<u>\$ 1,724,633</u>	<u>\$ 785,959</u>

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SUPPLEMENTARY INFORMATION SECTION

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2005

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>
Lynette Campbell	President	December 2005
Amy Howorth	Vice President	December 2007
Joseph Loverich	Clerk	December 2005
Bill Cooper	Member	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, 2005

	<u>Revised Second Period Report</u>	<u>Revised Annual Report</u>
Elementary		
Kindergarten	512.93	513.89
First through Third	1,239.58	1,238.51
Fourth through Sixth	1,241.16	1,240.84
Seventh and Eighth	786.57	785.08
Home and Hospital	0.23	0.33
Special Education	25.84	27.51
Extended Year	<u>6.16</u>	<u>6.16</u>
Subtotals	<u>3,812.47</u>	<u>3,812.32</u>
Secondary		
Ninth through Twelfth	2,289.41	2,271.63
Home and Hospital	3.18	4.99
Special Education	97.38	93.82
Extended Year	13.00	13.00
Regional Occupational Center Mandated Programs	<u>128.14</u>	<u>134.15</u>
Subtotals	<u>2,531.11</u>	<u>2,517.59</u>
Totals	<u>6,343.58</u>	<u>6,329.91</u>

<u>Supplemental Instructional Hours</u>	<u>Hours of Attendance</u>
Elementary	10,731
Secondary	<u>3,509</u>
	<u>14,240</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, 2005

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2004-05 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	63,880	180	In compliance
Grades 9 through 12	*	64,800	64,995	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, 2005

General Fund	(Budgeted)	2005	2004	2003
	2006			
Revenues and other financial sources	\$ 47,862,983	\$ 48,561,878	\$ 48,714,762	\$ 49,795,460
Expenditures	47,757,000	47,056,926	47,642,994	48,843,172
Other uses and transfers out	135,630	408,087	430,268	220,904
Total outgo	47,892,630	47,465,013	48,073,262	49,064,076
Prior period adjustments		(567,660)	(36,881)	
Change in fund balance	(29,647)	529,205	604,619	731,384
Ending fund balance	\$ 1,866,588	\$ 1,896,235	\$ 1,367,030	\$ 762,411
Available reserves	\$ 1,621,264	\$ 1,650,911	\$ 1,100,934	\$ 555,468
Designated for economic uncertainties	\$ -	\$ -	\$ -	\$ -
Undesignated fund balance	\$ 1,621,264	\$ 1,650,911	\$ 1,100,934	\$ 555,468
Available reserves as a percentage of total outgo	3.39%	3.48%	2.29%	1.13%
Available reserve percentage with inclusion of unrestricted special reserve fund	15.06%	15.26%	16.27%	21.26%
Total long-term debt	\$ 94,888,635	\$ 98,397,752	\$ 97,368,080	\$ 84,533,947
Average daily attendance at P-2	6,439	6,344	6,413	6,451

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 \$1,133,824 over the two past fiscal years. The fiscal year 2005-2006 budget projects a decrease of \$29,647. 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 15.26%. 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 each the past three fiscal years, and anticipates a deficit during the 2005-2006 fiscal year. Total long-term debt has increased by \$13,863,805 over the past two fiscal years.

Average daily attendance has decreased by 107 over the past two fiscal years. An increase of 95 ADA is anticipated during the fiscal year 2005-2006.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Federal Programs:		
U.S. Department of Education passed Through California Department of Education:		
IDEA Part B:		
Local Assistance	84.027	\$ 828,584
Preschool Local Entitlement	84.027A	1,615
Staff Development	84.027A	78,166
Sub-Total 84.027		<u>908,365</u>
IDEA Part B:		
Preschool Staff Development	84.173A	348
Federal Preschool	84.173	44,879
Sub-Total 84.173		<u>45,227</u>
Title II - Teachers Quality	84.367	244,753
Title I	84.010	94,859
Carl Perkins Vocational Education:		
Title II, Part C, Sec. 131, Secondary Education	84.048	25,038
Title IV Safe and Drug-Free Schools	84.186	13,538
Title IV - Innovative Strategies	84.298A	26,594
Title III - Limited English Proficiency	84.365	57
Title V Part D - Foreign Language Assistance	84.293	15,556
U.S. Department of Agriculture Passed Through The California Department of Education:		
National School Lunch	10.555	123,818
Basic School Breakfast Program	10.553	32,505
U.S. Department of Health and Human Services Passed Through the California Department of Education:		
Quality Improvement	93.575	14,605
School-Age Child Care Resource Contracts	93.575	<u>9,730</u>
Total Federal Awards		<u>\$ 1,554,645</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, 2005

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
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (J-200) WITH
AUDITED FINANCIAL STATEMENTS
June 30, 2005

	<u>General Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>
June 30, 2005 Annual Financial and Budget Report (Form J-200) Fund Balances	\$ 1,871,604	\$ 15,877	\$ 36,371
Understatement of cash and investments with fiscal agent			
Overstatement of account receivable	(199,592)		
Overstatement of accounts payable	<u>224,223</u>		
June 30, 2005 Audited Financial Statements Fund Balances	<u>\$ 1,896,235</u>	<u>\$ 15,877</u>	<u>\$ 36,371</u>

	<u>Bond Interest and Redemption Fund</u>	<u>Self - Insurance Fund</u>	<u>Retiree Benefit Fund</u>
June 30, 2005 Annual Financial and Budget Report (Form J-200) Fund Balances	<u>\$ 3,233,388</u>	<u>\$ 31,131</u>	<u>\$ 305,080</u>
June 30, 2005 Audited Financial Statements Fund Balances	<u>\$ 3,233,388</u>	<u>\$ 31,131</u>	<u>\$ 305,080</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.

<u>Deferred Maintenance Fund</u>	<u>Special Reserve Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>
\$ 387,061	\$ 5,590,359	\$ 1,160,303	\$ 485,210	\$ 1,239,423
		2,077		
		160,690		
<u>\$ 387,061</u>	<u>\$ 5,590,359</u>	<u>\$ 1,323,070</u>	<u>\$ 485,210</u>	<u>\$ 1,239,423</u>

	<u>Long-Term Debt</u>
June 30, 2005 Annual Financial and Budget Report (Form J-200)	
Total Liabilities	\$ 94,421,858
Understatement of compensated absences	23,424
Overstatement of post-employment benefits	(106,185)
Understatement of interest payable	2,992,830
June 30, 2005 Audited Financial Statements Long-Term Debt	
Total Liabilities	<u>\$ 97,331,927</u>

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OFFICES:

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SANTA MARIA, CALIFORNIA

*DENOTES 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, 2005, and have issued our report thereon dated November 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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. However, we noted other matters including the internal control over financial reporting, which we described in the findings and recommendation section of this report.

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
Beverly Hills, California
November 29, 2005

MOSS, LEVY & HARTZHEIM

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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, 2005, and have issued our report thereon dated November 29, 2005. 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 Education Audit Appeals Panel'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	12	Yes
K-8 only	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
School construction funds:		
School district bonds	3	Not applicable
State school facilities funds	1	Yes
Alternative pension plans	2	Not applicable
Proposition 20 lottery funds (Cardenas Textbook Act of 2000)	2	Yes
State lottery funds (California State Lottery Act of 1984)	2	Yes
California school age families education (Cal-Safe) program	3	Not applicable
School accountability report card	3	Yes

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 29, 2005

MOSS, LEVY & HARTZHEIM

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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, 2005. 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, 2005.

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 29, 2005

FINDINGS AND RECOMMENDATIONS SECTION

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 June 30, 2005

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 X No
 Reporting condition(s) identified not considered
 to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? X 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

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

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

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

State Awards

Internal control over state programs:
 Material weakness(es) identified? _____ Yes X No
 Reporting conditions(s) identified not considered
 to be material weaknesses? X 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, 2005

Section II- Financial Statement Findings

FINDING 2005-1
REVOLVING CASH AND CASH CLEARING
30000

Finding:

A review of the District's general revolving fund (non-cafeteria) and cash clearing fund disclosed that the respective employee who was responsible for preparing checks was also responsible for the preparation of the bank reconciliation.

Recommendation:

The District should segregate the above duties in order to strengthen the internal control procedures.

District's Response:

Bank reconciliations have been assigned to another individual.

FINDING 2005-2
PAYROLL SYSTEM
30000

Finding:

An examination of the payroll system disclosed that 37 out of 46 action forms lacked the respective personnel's authorizing signatures.

Recommendation:

The District should review all action forms for completeness prior to processing them into the payroll system.

Response:

Payroll staff is returning incomplete documents to the originator for further information and signatures.

FINDING 2005-3
PAYROLL SYSTEM
30000

Finding:

An examination of the payroll documentation disclosed that ten out of 46 timecards lacked either the respective employee or supervisor signature.

Recommendation:

The District should review all timecards for appropriate supervisor and employee signatures prior to processing the timecards into the payroll system. This would prevent future disagreements regarding the amount of hours that the employee was paid for.

Response:

Timecards are reviewed by payroll staff and no longer processed without authorizing signatures.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section II- Financial Statement Findings (Continued)

FINDING 2005-4
PAYROLL SYSTEM
30000

Finding:

An examination of the payroll documentation disclosed that 5 out of 46 I-9 forms were not obtained/ retained, and 7 out of 46 I-9 forms were incomplete.

Recommendation:

The District should implement procedures to ensure that all I-9 forms are obtained and reviewed by the District.

Response:

Personnel department has been advised of the need for compliance and has instituted procedures necessary to assure the implementation.

FINDING 2005-5
PAYROLL SYSTEM
30000

Finding:

An examination of the payroll documentation disclosed that 6 out of 46 employee applications were not obtained/retained by the District.

Recommendation:

The District should obtain and retain an application for each employee that is hired by the District.

Response:

The Personnel department will obtain and retain all applications by employees in accordance with this directive.

FINDING #2005-6
STUDENT BODY ACCOUNTS
30000

Finding:

At Manhattan Beach Middle School, we noted that 6 out of 20 invoices or other supporting documentation were not obtained/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 has informed the Student Body Advisor at Manhattan Beach Middle School about the need to retain all necessary documentation.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section II- Financial Statement Findings (Continued)

FINDING #2005-7
STUDENT BODY ACCOUNTS
30000

Finding:

At Manhattan Beach Middle School, we noted that a "PAID" stamp is not used. Also at Mira Costa High School, we noted that 3 out of 20 invoices did not have a "PAID" stamp.

Recommendation:

The District should require the Schools to use a "PAID" stamp to prevent invoices from being resubmitted for payment.

District's Response:

The District has informed the Student Body advisors of both schools about the requirement to stamp "PAID" on the submitted invoices. An internal audit will periodically review compliance.

FINDING #2005-8
STUDENT BODY ACCOUNTS
30000

Finding:

At Mira Costa High School, we noted that 1 out of 20 invoices lacked the respective personnel's authorizing signature, and 6 out of 20 invoices did not have check request forms which contain the approval signatures.

Recommendation:

The District should require the School to verify that all invoices are properly approved by the designated authorizing personnel. The School should investigate both invoices that do not contain the authorizing signatures, and supporting documents that do not contain a check request form, to prevent payments of unauthorized purchases.

District's Response:

The District has advised the Student Body accountant to obtain proper documentation for disbursements and will periodically conduct internal audits for compliance.

FINDING #2005-9
STUDENT BODY ACCOUNTS
30000

Finding:

At Mira Costa High School, we noted that deposits that were collected by the ASB office were not deposited in a timely manner. We also noted that when a club advisor/student turn in the deposits to the ASB office, the club advisor does not sign off on the deposit form to authenticate the amount that he/she has submitted. During our test of cash receipts at the Manhattan Beach Middle School, we noted that two transactions were deposited one week after the dates entered in the general ledger.

Recommendation:

The District should require that deposits be made timely and that all of the deposits be signed by the respective club advisor.

Response:

The District has informed both Student Body advisors about timeliness of deposits and proper record keeping. This finding will be audited internally for compliance.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section III – Federal Award Findings and Questioned Costs

None

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section IV – State Award Finding and Questioned Costs

FINDING 2005-10
ATTENDANCE
40000

Finding:

During attendance testing at Mira Costa High School, we noted that 10 out of 50 absence notes did not match the information provided on the attendance summary. We also noted the following findings:

- There were no signatures on the attendance sheets from one teacher for periods 2-4 for the week of 3/21/2005.
- For the week of 3/28/2005, a teacher only submitted 6 copies of period 1 attendance, instead of submitting all of the periods he/she taught for the week.
- One teacher submitted the report for the week of 3/14/2005 when he/she should have submitted the report for 2/21/2005.
- Original Scantrons were not presented for one teacher for period 6, Track & Softball-Girls, for the week of 3/7/2005. Computer generated forms were submitted and reviewed; however, these forms lacked approval signatures.
- Attendance report for one teacher for period 6 (week of 3/21/2005) was not presented. We were only able to review the computer generated report.

Questioned Costs

None

Recommendation:

The District has already made revisions on the average daily attendance report, but in order to have an audit trail, we recommend that the School verify that the teachers' attendance rosters and attendance reports are properly completed and updated.

Response:

The District concurs with this finding and will institute the proper procedures.

FINDING 2005-11
KINDERGARTEN RETENTION
40000

Finding:

An examination of the kindergarten retention disclosed that two out of 42 kindergarteners did not have a retention agreement present in their file even though they had repeated kindergarten. Additionally, 40 out of 42 kindergarten retention agreements were not signed by a school official and the anniversary date was not present on one out of 42 kindergarten retention agreements.

Recommendation:

The District should require all elementary schools to obtain/retain a completed kindergarten retention agreement for each child that repeats kindergarten.

Questioned Costs:

$\$5,311.43 * 2 = \$10,622.86$

District Response:

The District has informed staff at the elementary schools about the requirements for kindergarten pupil retention and will monitor for compliance.

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

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.

Status:

Implemented

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 resubmitted for payment.

Status:

Not Implemented – See Finding #2005-7

FINDING #2004-3
STUDENT BODY ACCOUNTS
30000

Finding:

At Manhattan Beach Middle School, we noted that 7 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.

Status:

Not Implemented – See Finding #2005-6

Section II- Financial Statement Findings (Continued)

FINDING 2004-4
CASH DISBURSEMENTS
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 resubmitted for payment.

Status:

Implemented

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 employee's 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.

Status:

Partial Implementation – Action forms were present in the personnel files, but the 37 out of 46 action forms lacked the respective personnel's authorizing signatures.

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.

Status:

Not Implemented – See Finding #2005-4

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

Section III – Federal Award Findings and Questioned Costs

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 employees in order to prevent future disagreements regarding the amount of hours the employees were paid for.

Status:

Not Implemented – See Finding #2005-3

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

Status:

Implemented

MANHATTAN BEACH UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

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.

Status:

Implemented