

**CITY OF REDONDO BEACH, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

PREPARED BY THE CITY OF REDONDO BEACH, CALIFORNIA
FINANCIAL SERVICES DEPARTMENT

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2007

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December 18, 2007

Honorable Mayor, City Council and
Citizens of the City of Redondo Beach:

The Financial Principles of the City of Redondo Beach require we issue the Comprehensive Annual Financial Report by the second Council meeting in December of each year. Pursuant to this requirement, we hereby submit the Comprehensive Annual Financial Report (CAFR) of the City of Redondo Beach, California (City), for the fiscal year ended June 30, 2007. These financial statements are presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

The primary purpose in providing this report, as defined by the City Charter, is to inform the Mayor and City Council of all financial and administrative activities of the previous fiscal year. In addition, this report is directed to two other groups: the citizens of Redondo Beach and the financial community. For the citizens, the report provides an opportunity to correlate City services and accomplishments with the expenditure of financial resources. For the financial community, this report provides information necessary to evaluate financial practices of the City, assure their soundness in accordance with GAAP, and determine the financial capacity of the City to incur and service debt for long-range capital planning.

Responsibility for the accuracy of the data presented and completeness and fairness of the presentation, including disclosures, rests with the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformance with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP requires that management provide a narrative introduction, i.e., overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

PROFILE OF THE CITY OF REDONDO BEACH

The City of Redondo Beach, incorporated in 1892, is located in the South Bay part of Los Angeles County and spans 6.3 square miles. According to the State Department of Finance, Redondo Beach has a population of 67,495 as of January 1, 2007, reflecting a slight increase of 0.57% from its 2006 population level of 67,112. The City remains a highly residential, non-industrial community. It is a highly-educated, upscale community where the median cost of a home is \$789,000.

Redondo Beach has significant concentrations of employment and retail activity in the northern industrial complex anchored by Northrop Grumann, while the South Bay Galleria anchors the east end of the City. The Harbor/Pier area also contributes to the City's economy, and an eclectic mix of specialty shops and services known as the Riviera Village is located at the south end. Based on the number of full-time employees, the top ten employers in Redondo Beach are Northrop Grumann, Beach Cities Health District, the City, Nordstrom, Redondo Beach Unified School District, Macy's, Crown Plaza, Ocean Club Apartment Homes, DHL Global Forwarding, and the U.S. Post Office.

The City is divided into five districts and operates under a Council-Manager form of government. One councilperson is elected from each district and serves a term of four years, with a limit of two full terms. The Mayor is elected by the City at large, also limited to serving two full terms. Other elected officials are the City Treasurer, City Attorney and City Clerk - all serving terms of four years, but can be re-elected an unlimited number of times. The City Council is responsible for, among other things, passing ordinances, adopting the budget, establishing policy, appointing committees/commissions and appointing a City Manager.

In addition to sitting as the governing board of the City, the Mayor and City Council act as the Board of Directors for various component units of the City: the Redondo Beach Housing Authority, the Redondo Beach Public Financing Authority, the Parking Authority of the City of Redondo Beach, and the Redevelopment Agency of the City of Redondo Beach. The City Manager is responsible for carrying out the policies and ordinances of the City Council and for appointing the heads of the City's various departments.

The City provides a full range of municipal services. These include public safety (police and fire protection), recreation and community services, library, parks, maintenance and improvement of streets and infrastructure, planning and zoning, housing, economic development, transit, and general government. The City also operates and maintains a harbor under a trust agreement with the State of California.

The annual budget serves as the foundation for the City's financial planning and control. The City Council is required to adopt an annual budget on or before June 30 of each year for the General Fund, Special Revenue Funds, Enterprise Funds, Capital Projects Fund and Internal Service Funds. The City also adopts a five-year capital improvement program and a redevelopment agency budget.

The level of appropriated budgetary control is the total adopted budget, which is defined as the total budget for all funds and divisions, and all revisions and amendments approved by the City Council subsequent to the initial budget adoption. The City Manager may authorize transfers within each fund and between line items or programs within each department; however, supplemental appropriations and transfers between funds during the budget year must be approved by four affirmative votes of the City Council. Unexpended or unencumbered appropriations expire at the end of each fiscal year. Encumbered appropriations and appropriations related to grants and donations are re-appropriated in the ensuing year's budget by action of the City Council. The City utilizes an encumbrance system, whereby commitments, such as purchase orders and unperformed contracts, are recorded as reserved fund balances at year end.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Outlook

The economic outlook for the region remained healthy throughout FY 2006-2007. Regional revenues were enhanced by a number of factors including a healthy real estate market, increased tourism, and strong consumer spending. These factors generated increased property tax, transient occupancy tax, and sales tax revenues for the City during FY 2006-2007. Looking forward, higher fuel and energy prices, the impact from the sub prime mortgage crisis, and increased inflationary pressures may have a negative impact on National, State, and local economic performance. Another factor identifying a potential slowdown in the economy is the slight increase in the Redondo Beach unemployment rate, which increased slightly in 2006 to 2.7%, from 2.6% in 2005.

Locally, during FY 2006-2007, the City saw a healthy 7.1% increase in assessed valuation growth. Complimenting this economic trend was a 5.7% increase in retail sales tax revenue. The City's per capital retail sales continue to exceed the countywide average, ranking 32nd in total taxable retail sales out of Los Angeles County's 88 cities. Hotel occupancy rates remained strong at 77%. A voter-approved occupancy tax, coupled with strong travel-related demand, represent other contributing factors to local economic strength.

Economic Development

The City's economy and that of the entire South Bay continue to diversify. The narrowly based defense and aerospace dependent economy of the 1990s has been broadened significantly with strong growth in tourism, trade, technology, film and media sectors. The South Bay creates a disproportionate number of high paying jobs in the region. However, one major economic development challenge is to keep the jobs of the information and knowledge-based economy located here, given high housing costs.

In order to continue to retain and attract business and stimulate tourism, the City must strive to maintain a business friendly attitude and to provide the highest quality in municipal services.

The City's major economic development efforts can be summarized as follows:

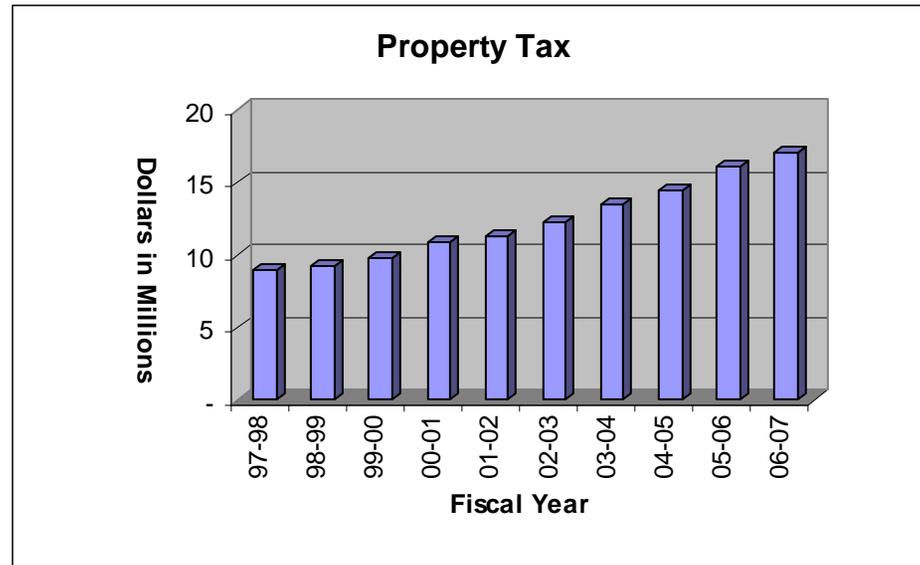
- Providing support to businesses in the Artesia / Inglewood area and helping them capitalize on a new image and identity.
- Assisting the Riviera Village in the process of implementing physical improvements.
- Implementing the Harbor Area Vision and seeking major public and private reinvestment in the Harbor / Pier area.
- Leveraging public assets to ensure a well-rounded economic base.
- Working with major construction and improvement projects, like the Portofino Hotel renovation.
- Strengthening the on-going attractiveness of the Galleria area in the face of revitalized competition from other regional centers.
- Focusing on business retention, expansion, and the attraction of business opportunities as they arise, including a regular business outreach program.

Redondo Beach is better off than most cities, experiencing growth in many of its major revenue categories. Five of the City's largest revenue sources are property tax, sales tax, utility users' tax, motor vehicle in lieu tax, and transient occupancy tax. These major sources are discussed in more detail below.

Property Tax

The City's largest revenue source, property tax, is imposed on real property (land and permanently attached improvements, such as buildings) and tangible personal property (moveable property) located within the City. Property is assessed by the County Assessor at a tax rate of 1.0% of the assessed value. The City receives 16.6% of the tax rate from the County of Los Angeles - Auditor/Controller's Office.

Property values and real estate sales remain strong in FY 2006-2007, with citywide assessed valuation increasing by \$725 million or 7.1% to \$10.56 billion. 78% of the City's assessed valuation is derived from residential properties, 9% is derived from commercial properties, 4% from industrial properties, while the remaining 9% is derived from other properties, such as unused land. During FY 2006-2007, City property tax revenue increased by 6.57% or \$1.06 million, to \$17.14 million. This increase reflects continuation of a positive trend in real estate appreciation driven by relatively low mortgage rates, a continued shortage in housing supply, and a heightened level of real estate exchange. The upward trend in both property tax valuation and corresponding property tax revenue growth is showing signs of moderation in response to increased mortgage rates, the sub prime market, a slowing economy, and supply/demand factors. From an overall strategic perspective, recent slowing trends in both property tax valuations and corresponding revenue growth only moderate the continued positive impact of property tax revenue sources to the City's overall revenue stream.

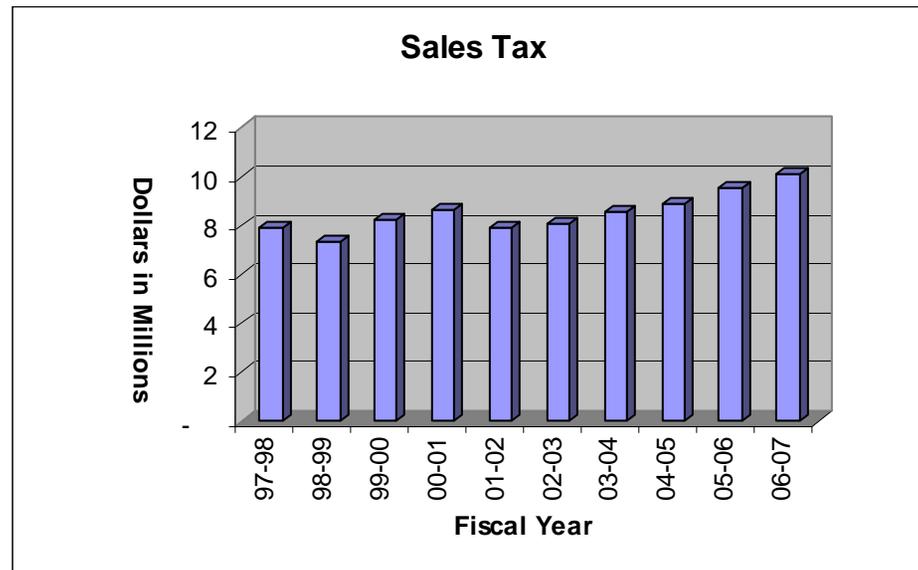


Sales Tax

The City's second largest revenue source is sales tax. Sales tax in Los Angeles County is 8.25% of the sale price of taxable goods and services sold at retail. Redondo Beach receives 1% of taxable sales from the State Board of Equalization.

Over the past five years, local sales tax revenue has shown a consistent strengthening trend, increasing from \$7.89 million in FY 2001-2002 to \$10.12 million in FY 2006-2007, an increase of 28.4%. During FY 2006-2007, growth in sales tax revenue totaled \$548,748, or 5.7%. Components of sales tax revenue for this year consisted of \$7.52 million in local sales tax revenue and \$2.60 million in State "triple flip" sales tax in lieu from education relief augmentation funds. Twenty-five percent of the City's FY 2006-2007 traditional sales tax base is now committed by State legislative action to secure State deficit reduction bonds. Rising local incomes, population growth, and internal auditing efforts have served to augment the performance of this key tax based operating revenue.

The City is committed to maintaining a strong local economy through both business retention and business expansion, thereby enhancing the community's overall economic base. As retail businesses continue to grow within the City, such as the opening of a Target retail store in October of 2005, sales tax revenue growth will continue to be enhanced. The City continues to closely monitor progress with respect to the streamlined sales tax project, designed to simplify and modernize sales and use tax collection and administration for both traditional "Main Street" and remote sellers for all types of commerce, with particular attention to internet sales transactions.

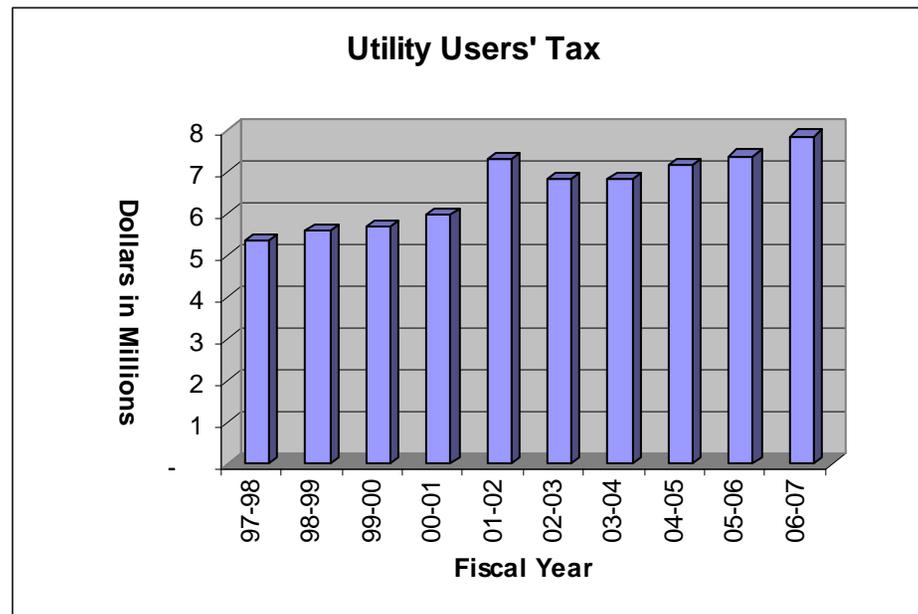


Utility Users' Tax

The City's third largest revenue source, utility users' tax (UUT), is imposed on consumers of electric, gas, cable services, water and telephone services. Federal and state governmental agencies and pay telephone users are exempt. UUT consists of approximately 36% telecommunications and 38% electricity. Redondo Beach's UUT rate is 4.75%.

For fiscal years 1998 through 2001, revenues derived from UUT were fairly level. The spike in UUT revenue for FY 2001-2002 reflects the impact of the energy shortage in California and the corresponding dramatic short term increase in energy rates. UUT revenue was reduced in FY 2002-2003 due to utility rate reductions and State mandated energy rebates to consumers. During FY 2003-2004, increases in UUT telecommunications revenue resulted from application of UUT to wireless communications services. These increases were offset by reductions in energy-related UUT sources, flattening the overall performance of UUT for FY 2003-2004.

UUT revenue for FY 2006-2007 totaled \$7.88 million, increasing by \$479 thousand or 6.48%. With 36%, or \$2.84 million of the City's UUT revenue derived from telecommunications services, this source is facing a number of threats challenging the continuing viability of these revenues. The combination of hostile litigation, technology changes, and adverse legislation; place future UUT telecommunications-based revenues at risk. The City is pro-actively responding to these challenges by considering an array of options designed to protect these important tax-based resources.



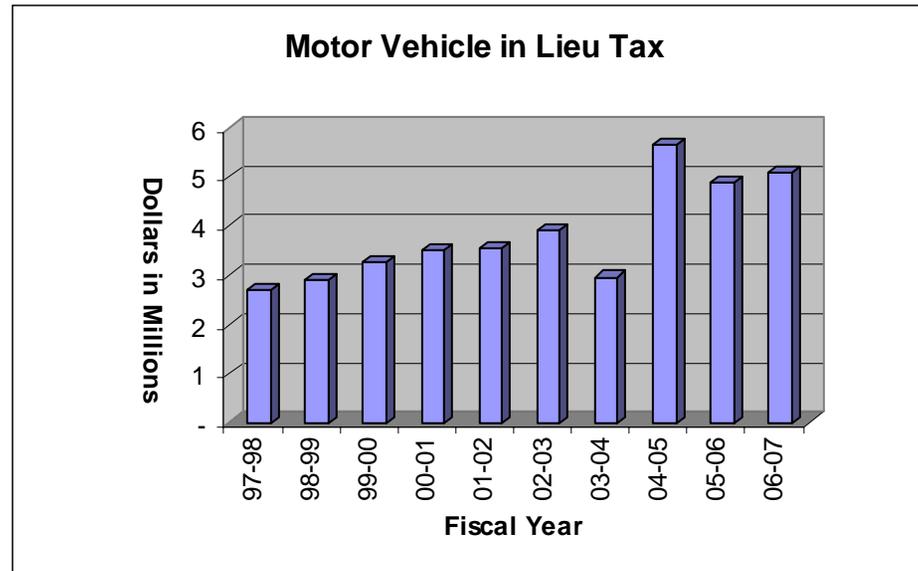
Motor Vehicle in Lieu Tax

The City's fourth largest revenue source (including property tax in lieu) is motor vehicle in lieu tax (MVIL) and is imposed on ownership of a registered vehicle for the privilege of operating the vehicle on the public highways. A portion of the tax is disbursed to the cities and is distributed based on the proportion that the population of each city bears to the total population of all cities (a per capita formula). The license fee paid to the state by vehicle owners is 0.65% of the market value of the motor vehicle; however, the City is due 2% of the market value of the motor vehicle. Therefore, the State backfills the additional 1.35% out of its General Fund in the form of MVIL. For each year the vehicle is owned, the assessed fee declines in accordance with a depreciation schedule to reflect the decreased value of the vehicle.

In FY 2003-2004, the State Budget Act of 2004 substantially changed the allocation of Vehicle Licenses Fee (VLF) revenues to Cities and Counties. The state VLF backfill was eliminated and the formula allocating the remaining VLF revenues to Cities and Counties was altered. A new revenue, the Property Tax In Lieu of VLF effectively compensated Cities and Counties for the funding they would have received at the full 2% VLF tax rate.

The new formula for allocating the remaining VLF revenues consists of a monthly allocation to Cities and Counties in proportion to population. The total VLF revenue collected by the State under the 0.65% tax rate for FY 2006-2007 was \$2.33 billion. State and county programs receive over 75% of these revenues. State administrative and other charges total \$391 million, and the remaining balance of \$184 million was allocated to Cities based upon population.

Since FY 1995-1996, the City experienced a steady increase in VLF until FY 2003-2004, when revenue decreased by \$937,000 as the result of State budgetary realignment reducing the MVIL apportionment. In FY 2004-2005, the MVIL revenue increased by \$2.7 million to \$5.7 million. This increase was attributed to the State's advance repayment of \$1.1 million in MVIL funds loaned to the State from prior year, adjustments to prior period apportionments, and implementation of a revised State VLF allocation formula establishing the Property Tax in Lieu of VLF revenue. In FY 2006-2007, MVIL revenue totaled \$5.08 million, consisting of \$4.65 million of property tax in lieu of VLF revenue and \$430,000 in MVIL revenue.

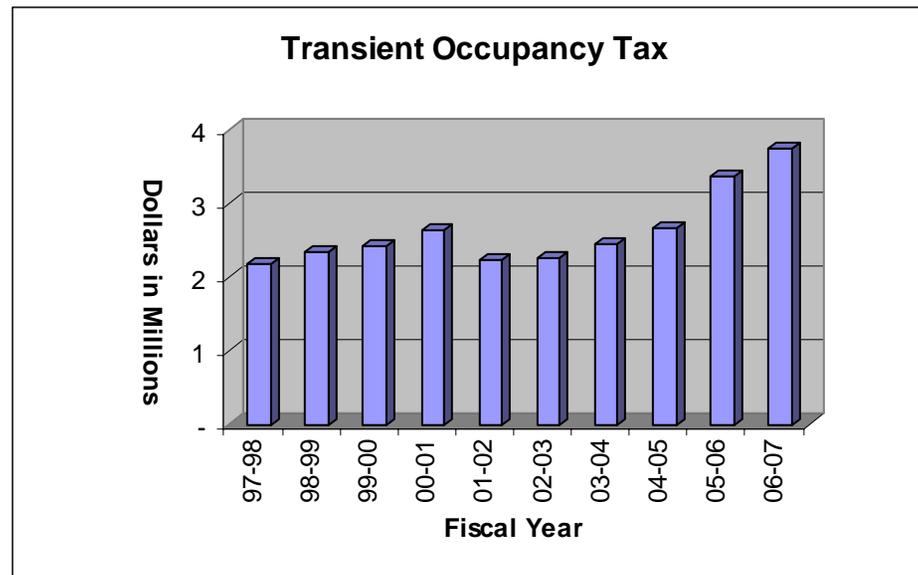


Transient Occupancy Tax

The City's fifth largest revenue source, transient occupancy tax (TOT), is imposed on occupants of hotel, motel, inn, tourist home or other lodging facilities unless such occupancy is for 30 days or longer. By voter approval, the City's TOT rate was increased in July of 2005 from 10% to 12%, in line with regional tax rates. The tax is applied to the customer's lodging bill at a rate of 12%. One percent (1%) of the TOT collected is contributed to the Redondo Beach Chamber of Commerce and Visitors Bureau to support marketing and tourism in the City. This 1% is not netted against revenues, but rather reflected in the City's expenditures.

In FY 1995-1996, the City revised the TOT ordinance to streamline collection and reporting on hotel room rentals associated with the airline industry. This ordinance revision served to significantly enhance the performance of this tax based operating revenue. This favorable trend was offset by the adverse impact of 9/11 during FY 2001-2002, in which TOT revenue declined by 15.7% from the prior fiscal year.

TOT revenues have since significantly recovered and reflected an increase of 11.5%, or \$384,701, from FY 2005-2006 to FY 2006-2007. This reflects the positive impacts of both the voter-approved tax rate increase and strong tourism demand. Hotel room occupancy rates also remain consistently strong at 77%. The combined effects of economic development and strong promotional efforts present a positive picture for the long-term prospects for growth in tourism and business travel in Redondo Beach.



LONG-TERM CAPITAL IMPROVEMENT PLANNING

The City annually adopts a Five-Year Capital Improvement Program. The first year funding of capital improvement projects is included in the fiscal year 2006-2007 adopted budget. These projects, however, should not be viewed as immediate resolution to existing infrastructure problems, but instead as part of “setting the table” for the future. It will take time to rehabilitate the City’s capital assets, and we anticipate that our long-range replacement program will protect the City’s valuable assets for future generations. Meanwhile, the City is continuing to invest in a number of significant projects:

Street Resurfacing

- ♦ *Residential Street Rehabilitation* - In FY 2006-2007, the City spent \$960,000 on its multi-year residential street rehabilitation program. The City also spent approximately \$400,000 on additional improvements to its residential street system. For FY 2007-2008, the City has budgeted \$1.5 million to continue the project.
- ♦ *Arterial Street Resurfacing* - In FY 2006-2007, the City spent over \$475,000 resurfacing City arterials. For FY 2007-2008, the City budget includes over \$2.5 million for additional arterial resurfacing.
- ♦ *Pacific Coast Highway/Catalina Avenue Intersection Improvements* – In February 2005, work began to restore the five point intersection at Pacific Coast Highway and Catalina Avenue. The landscaping component of the project has been designed and is estimated to be completed in FY 2007-2008.

Storm Drain System Improvements

- ♦ *Water Quality Improvements* - The City has begun an aggressive program to improve the quality of the water discharged from the City’s storm drain system. In FY 2005-2006, a “Water Quality Task Force” was formed to find solutions to recurring “red tides” and water quality issues in the City’s vibrant harbor. The Task Force completed an extensive list of short- and long-term action recommendations. Several of these items were considered as part of the City’s Capital Improvement Program. The FY 2007-2008 budget includes \$175,000 to implement three of the Task Force’s recommendations.
- ♦ *Storm Drain Line Replacement*- The FY 2007-2008 budget includes approximately \$2.0 million for storm drain improvements and replacement.

Sewer Improvements

- ♦ *Sewer Line Replacement* - In FY 2006-2007, over 4,100 linear feet of sewer line were replaced as well as, 13 manholes. Also during the period, 75% of the City’s 112 miles of sewer line was video inspected. The results of the inspection will be used to guide future sewer improvement projects. The fiscal year 2007-2008 budget includes \$4.5 million for sewer facility improvements.

Facility Improvements

- ♦ *City Facility Improvements* - In FY 2006-2007, the City spent approximately \$170,000 to repair and improve the Fire Station 2 Training Tower. During this period, the City also spent \$280,000 on a new marquee and monument signs at the Performing Arts Center. A new \$136,000 HVAC system was also installed at the City’s Main Library.
- ♦ *Major Public Facilities Priority List*– In February, 2007, the City Council adopted the first Major Public Facilities Priority List. The purpose of the List is to capture and prioritize the more major public facility needs, including replacement of existing facilities, especially those outside of the regular five year planning horizon in the regular CIP process.

CASH MANAGEMENT POLICIES AND PRACTICES

Under the direction of the elected City Treasurer, cash temporarily idle during the year is invested in securities as outlined in the City's investment policy. The Treasurer's cash management philosophy is to buy and hold both Federal Agency instruments and high-grade Corporate Medium-Term notes within a structured investment maturity ladder of one to five years. Complimenting these investment instruments, the Treasurer ensures sufficient investment portfolio liquidity by maintaining approximately 25% of the portfolio's assets in the state managed Local Agency Investment Fund (LAIF).

All investments comply with state law and the City's Statement of Investment Policy, which is reviewed and approved by the City Council and the Budget and Finance Commission on an annual basis. In addition, the City's Statement of Investment Policy was recertified by the Association of Public Treasurers of the United States and Canada (APT-US&C) in June 2007.

The policy's established investment performance benchmark is the one-year moving average of the Constant Maturity Treasury (CMT) index. In the periodic purchase of investments, the rate of return provided by LAIF, and the yield on the U.S. Treasury Security of closest maturity to the purchased investment, also serve as investment performance indicators. The Treasurer is required to submit a quarterly investment report to the City Council and Budget and Finance Commission that provides a summary of the status of the current portfolio and material transactions.

In order to ensure liquidity within the investment portfolio, the City maintains \$10 million to \$20 million in LAIF, on average. The yield provided by LAIF over the past year has increased in line with the overall improvement in interest rates available in the marketplace. Excess investment funds above the liquidity threshold are placed primarily in Federal Agency investments within the one-to-five-year investment maturity range. The improvement in market interest rates experienced during fiscal year 2006-2007 provided investment opportunities that served to improve the overall investment yield on the portfolio. As of June 30, 2007, the City's idle funds were invested as follows:

Investment	Market Value*	% of Portfolio	Yield to Maturity
Federal Agency Issues - Coupon	\$ 41,676,677	62.1%	4.34%
LAIF	21,500,000	32.0%	5.25%
Corporate Medium-Term Notes	3,950,873	5.9%	5.17%
Total Investments/Averages	\$ 67,127,550	100.0%	4.68%
Average Term of Investments			1.36 years

*As required by GASB 31, the City recorded the "paper" or unrealized loss on certain investments to account for the market value on June 30, 2007. The amount, \$670,383, represented less than 9/10ths of 1% of the current market value of the investments within the City's investment portfolio – an insignificant unrealized diminishment in the City's overall level of financial resources. This unrealized diminishment in the value of investments resulted from the general increase in fixed income market rates over the course of the fiscal year. The value of the City's fixed income investments have an inverse relationship to market interest rates, i.e., when market rates rise, investment valuations fall; when interest rates fall, investment valuations rise. As stated in the City's Investment Policy, the City utilizes a buy and hold investment strategy, whereby fixed income investments are held to maturity. This results in the return of the full value of the original investment, plus associated interest, at the maturity date of the investment.

Investment Portfolio value is enhanced by maintaining a well diversified mix of investments consisting of AAA rated Federal Agency Issues, AA rated Corporate Medium-Term Notes, liquid investments within the state's LAIF Investment pool, and participation in the California Statewide Communities Development Authority Tax and Revenue Anticipation Note (TRAN) financing program. TRAN allows participants the opportunity to borrow funds at tax exempt market rates to increase cash resources needed to fund temporary cash shortfalls in the General Fund. These shortfalls arise due to the timing differential of monthly cash receipts and disbursements. The financing program provides an additional source of revenue for the City because the cost of borrowing is less than the reinvestment earnings generated by TRAN. For the fiscal year 2006-2007 the City issued \$5 million in TRAN, maturing on June 30, generating additional interest income of \$58,809.

RISK MANAGEMENT

The City maintains a self-insurance program for workers' compensation and liability claims. The program accumulates resources in the Self-Insurance Program internal service fund to meet potential losses. For fiscal year 2006-2007, the self-insurance retention (SIR) is \$750,000 for workers' compensation and \$500,000 for liability. Excess coverage up to \$100,000,000 for each workers' compensation claim is provided by a third-party private insurer, and excess liability up to \$20,000,000 each occurrence is covered by the Independent Cities Risk Management Authority (ICRMA).

ICRMA is a joint powers authority for medium-sized California municipalities which have agreed to pool risks and losses. Each member's share of pooled costs depends on the losses of all members as well as the member's own loss experience. Both the workers' compensation and liability claims programs are managed by a third-party claims administrator under the direction of the Risk Management Division of the Human Resources Department.

The amounts included in the Self-Insurance Program internal service fund are significant partly due to requirements of Government Accounting Standards Board (GASB) Statement No.10. In complying with GASB 10, the City must record as a liability and expenditure not only actual risk/loss experienced in the areas of workers' compensation and liability, but also claims incurred but not reported (IBNR). IBNR claims include exposure for losses that a city is not yet aware of, as well as any statistically probable increase in costs for accidents that are already known to the City. The appropriate amount to include on the financial statements for IBNR claims is typically developed by an actuary.

As of June 30, 2007, the City recorded the following:

Workers' Compensation Claim

Claims payable totaled \$14,278,380, representing a decrease of \$235,346, or 1.62% from prior period. This decrease is attributable to a decrease in reserves and IBNR over a one-year period.

Liability Claims

Claims payable totaled \$ 2,553,474, representing an increase of \$830,560, or 69.13%, from prior period. This increase is attributable to an increase in estimated reserves and IBNR.

Unemployment Insurance

The City participates in a direct-cost reimbursement method for unemployment insurance. This program is administered by the State Employment Development Department to provide salary continuance for employees who were terminated involuntarily. For fiscal year 2006-2007, the total reimbursed cost was \$27,345.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City provides three defined benefit pension plans - two for safety employees (3% at 55 for Fire and 3% at 50 for Police) and one for miscellaneous employees (2% at 55). These plans are part of the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The City makes contributions to the plans based on amounts determined by CalPERS actuaries. The City also contributes the employees' required contributions on their behalf and for their account.

After a number of years of rate volatility given a variety of causes, the CalPERS Board adopted a Rate Stabilization Plan in April, 2005. This Rate Stabilization Plan provides for a more manageable ability to fund pension obligations over short and long terms. The Rate Stabilization Plan features an asset smoothing method, an amortization period for gains and losses, and a minimum contribution when the Plan has a surplus. The Rate Stabilization Plan resulted in a reduction in the City's PERS employer contribution rates, after a number of years with significant increases. Rates for safety employees in fiscal year 2006-2007 were 31.105%, down from 40.021% in 2005-2006, with miscellaneous employees' rates decreasing from 11.937% to 11.577%. Rates are projected to increase from 2006-2007 levels for the 2007-2008 and 2008-2009 fiscal years.

The total contribution paid by the City toward retirement benefits was \$9.2 million, which includes both the employer and employer-paid member contributions. Approximately 78.3%, or \$7.2 million, was charged to the General Fund. The safety employees' rate decreased 8.916% and the miscellaneous employees' rate remained relatively flat. The anticipated total contribution for fiscal year 2006-2007 will be approximately \$10.4 million.

Aside from contributing to CalPERS, the City also contributes to Social Security. The fiscal year 2006-2007 total cost for Social Security and Medicare coverage was \$1.7 million, of which \$1.0 million, or 58.8%, is from the General Fund. Safety employees do not participate in Social Security and Medicare, except for those employees hired after 1986, which are required to participate in Medicare.

The City also provides post-retirement health care benefits to its employees in accordance with agreements reached with various employee bargaining groups. The City pays for retirees' health care premiums in these plans up to limits established in the agreements with the bargaining units. These payments are financed on a pay-as-you-go basis. As of June 30, 2007, the City was providing benefits to an average of 92 participants at an annualized cost of \$380,471.

AWARDS

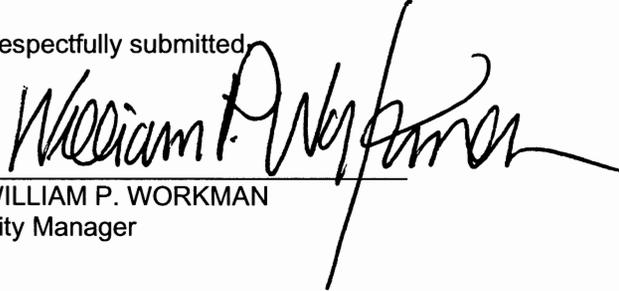
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Redondo Beach for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

For FY 2006-2007, the City's application for award programs will be limited to the GFOA Certificate for Excellence in Financial Reporting. Beginning with FY 2005-2006, the California Society of Municipal Finance Officers (CSMFO) Board determined that only those agencies that 1) did not receive the GFOA CAFR award for the previous year OR, 2) will not be submitting to the GFOA CAFR award program for the current year are eligible to participate in the CSMFO award program. Since we do not meet either criterion above, we are disqualified from participating in the CSMFO award program. We believe that our current comprehensive annual financial report continues to meet the criteria to receive the GFOA Certificate for Excellence in Financial Reporting, and we will be submitting it to GFOA for consideration.

ACKNOWLEDGMENTS

The timely preparation of this report has been accomplished with the efficient and dedicated services of the staff of the Financial Services and Treasury Departments. We also thank the City's independent auditors, Lance, Soll & Lunghard, LLP, for their assistance and expertise and all City departments for their cooperation during the audit engagement and their participation in preparing this report. We would like to express our appreciation to the Mayor and City Council and the Budget and Finance Commission for their interest and support in planning and conducting the City's financial affairs in a responsible and progressive manner.

Respectfully submitted,



WILLIAM P. WORKMAN
City Manager



DIANA MORENO
Financial Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Redondo Beach
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF REDONDO BEACH

MAYOR AND CITY COUNCIL



Michael A. Gin
Mayor



Steve Aspel
Councilmember
District 1



Chris Cagle
Councilmember
District 2



Pat Aust
Councilmember
District 3



Steven Diels
Councilmember
District 4



Matt Kilroy
Councilmember
District 5

CITY OFFICIALS

William P. Workman
City Manager

David Biggs
Assistant City Manager



Michael Webb
City Attorney



Eleanor Manzano
City Clerk



Ernie O'Dell
City Treasurer

Michael Witzansky
Director of Recreation & Community Services

Daniel P. Madrigal
Fire Chief

Steve Huang
City Engineer/Chief Building Official

Barry Kielsmeier
Harbor, Business and Transit Director

Chris Benson
Information Technology Director

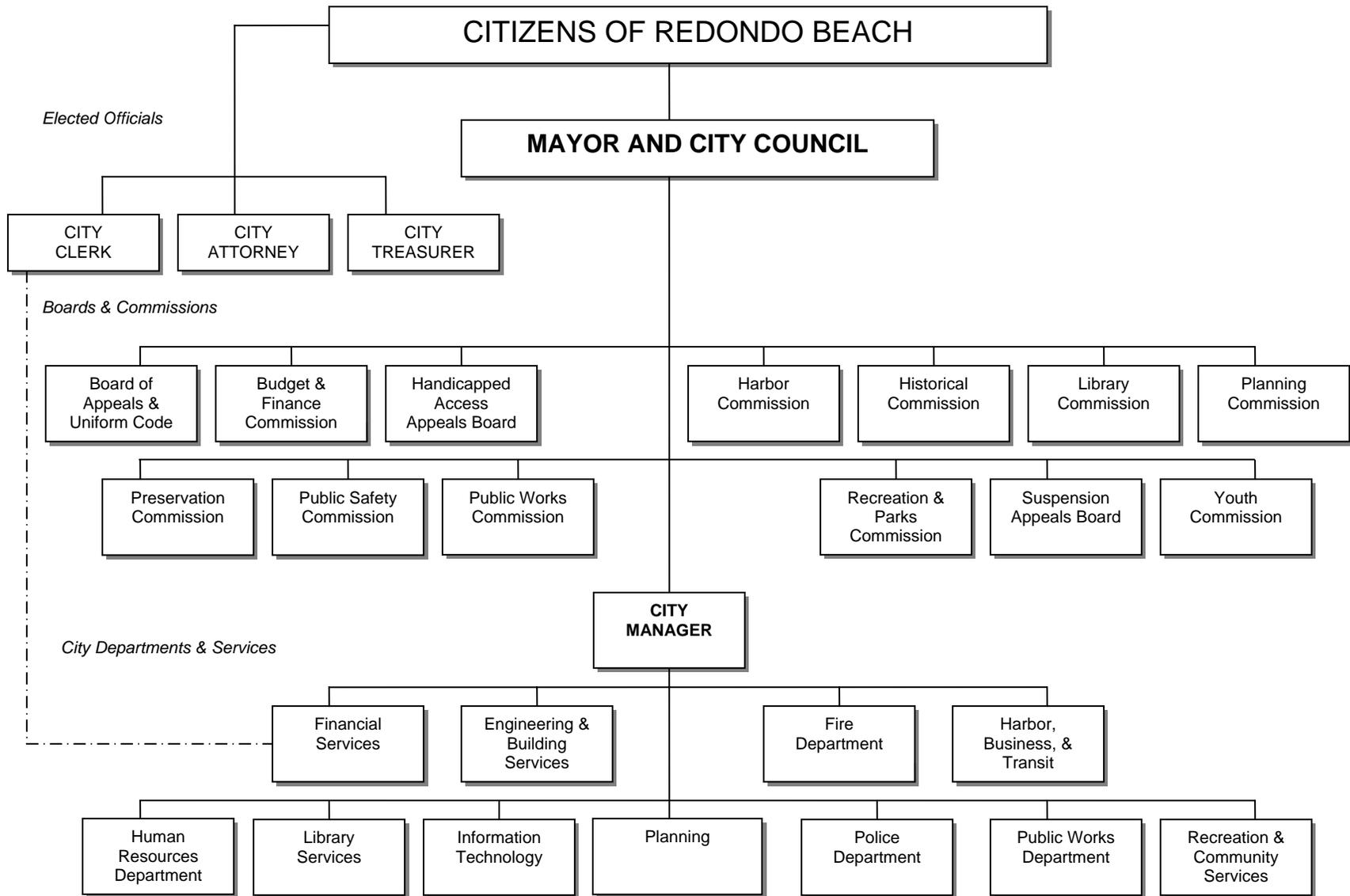
Randy Berler
Planning Director

W. Joseph Leonardi
Chief of Police

Jean Scully
Director of Library Services

Sylvia Glazer
Public Works Director

Diana Moreno
Financial Services Director



ORGANIZATIONAL CHART
FY 2006-2007