

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redondo Beach, California, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Redondo Beach's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redondo Beach as of June 30, 2007, and the respective changes in financial position and cash flows where applicable thereof and the budgetary comparison for the General Fund, Other Intergovernmental Grants, and Special Revenue Redevelopment Agency Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of the City of Redondo Beach's internal control over financial reporting and our tests of its compliance with certain 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 control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

The management's discussion and analysis and the Modified Approach for City Streets Infrastructure Capital Assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Lance, Soll & Lunghard, LLP

November 16, 2007

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CITY OF REDONDO BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Redondo Beach (the "City") provides the Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net assets, changes in net assets, and fund disclosures are discussed in more detail later in the report.

Financial Highlights - Primary Government

- ♦ *Government-Wide Highlights*

Net Assets - Assets of the City exceeded its liabilities at fiscal year ending June 30, 2007 by \$214.2 million - assets for governmental activities exceeded liabilities by \$153.3 million and assets for business-type activities exceeded liabilities by \$60.9 million.

Changes in Net Assets - The City's net assets increased \$10.1 million in fiscal year 2006-2007. Net assets of governmental activities increased \$8.4 million, while net assets of business-type activities decreased \$1.7 million.

- ♦ *Fund Highlights*

Governmental Funds - At the close of fiscal year 2006-2007, the City's total governmental funds reported a fund balance of \$38.5 million, an increase of \$5.9 million from the prior year. Highlighted below are this year's five major funds included in this grouping.

General Fund - The fund balance of the General fund on June 30, 2007 was \$11.1 million, a decrease of \$1.7 million from the prior year.

Special Revenue - Redevelopment Agency Fund - The fund balance of the Special Revenue - Redevelopment Agency fund on June 30, 2007 was \$11.2 million, an increase of \$3.6 million from the prior year.

Special Revenue - Other Intergovernmental Grants - The fund balance of the Special Revenue - Other Intergovernmental Grants fund on June 30, 2007 was (\$1.9) million, a decrease of \$1.1 million from the prior year.

Capital Improvement Projects Fund - The fund balance of the Capital Improvement Projects fund on June 30, 2007 was \$10.6 million, an increase of \$2.7 million from the prior year.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency fund on June 30, 2007 was a negative \$15.9 million, decreasing the negative fund balance by \$800,000 when compared to prior year.

Debt Service - Public Financing Authority Fund - The fund balance of the Debt Service - Public Financing Authority fund on June 30, 2007 was \$12.6 million, a decrease of \$361,639 from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They are comprised of the following:

- ♦ *Statement of Net Assets*

The Statement of Net Assets presents summarized information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This financial statement combines and consolidates governmental funds' current financial resources with capital assets and long-term obligations.

- ♦ *Statement of Activities and Changes in Net Assets*

The Statement of Activities and Changes in Net Assets presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, cultural and leisure services and housing and community development. Business type activities include operations of the harbor, sewers (wastewater), and solid waste.

The government-wide financial statements include not only the City itself (known as the primary government), but also the activities of legally separate component units: the Parking Authority of the City of Redondo Beach, the Redondo Beach Public Financing Authority (PFA), the Redevelopment Agency of the City of Redondo Beach (RDA), and the Redondo Beach Housing Authority. Because the City Council acts as the governing board for each of these component units and because they function as part of the City government, their activities are blended with those of the primary government.

The government-wide financial statements can be found behind the tab section titled Government-Wide Financial Statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement No. 34 (GASB 34) and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, while all Non-Major Funds are summarized and presented in a single column.

- ♦ *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance with the government-wide financial statements can be found on pages behind the tab section titled Government-Wide Financial Statements.

The City has 25 governmental funds, of which five are considered major funds for presentation purposes. Each major fund is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The City's five major funds are: General Fund, Special Revenue – Redevelopment Agency Fund, Special Revenue – Other Intergovernmental Grants Fund, Debt Service - Redevelopment Agency Fund, and Debt Service - Public Financing Authority. Data from the non-major governmental funds (e.g., State Gas Tax Fund, Local Transit Fund, Storm Drain Fund, Workforce Investment Act Fund) are combined into a single, aggregated presentation. The governmental funds financial statements can be found on pages behind the tab section titled Fund Financial Statements. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages behind the tab section titled Non-Major Governmental Funds.

- ♦ *Proprietary Funds*

The City maintains two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for harbor activities, solid waste (i.e., collection, recycling, hazardous waste disposal, street cleaning), and operations and maintenance of City sewers. Internal service funds are used to accumulate and account for the City's vehicles, building maintenance and repair, graphics and printing, information technology, emergency communications, and insurance. Because internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds' financial statements provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds' financial statements use the accrual basis of accounting. Separate financial statements are provided for Harbor Uplands, Harbor Tidelands, Solid Waste and Wastewater. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for each internal service fund is provided in the form of combining statements in the Internal Service Funds section of this report.

The basic proprietary funds financial statements can be found behind the tab section titled Fund Financial Statements.

- ♦ *Fiduciary Funds*

Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found behind the tab section titled Notes to the Financial Statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes disclosure of the modified approach for the city pavement infrastructure. This information can be found behind the tab section titled Required Supplementary Information.

City of Redondo Beach's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
Current and Other Assets	\$ 71,186,799	\$ 62,151,880	\$ 36,077,471	\$ 34,401,933	\$ 107,264,270	\$ 96,553,813
Capital Assets, net depre	135,154,770	134,709,507	40,206,605	40,401,510	175,361,375	175,111,017
Total assets	<u>206,341,569</u>	<u>196,861,387</u>	<u>76,284,076</u>	<u>74,803,443</u>	<u>282,625,645</u>	<u>271,664,830</u>
Long-Term Liabilities						
Outstanding	47,119,077	46,794,188	14,171,988	14,529,050	61,291,065	61,323,238
Other Liabilities	5,928,315	5,153,532	1,202,356	1,110,062	7,130,671	6,263,594
Total Liabilities	<u>53,047,392</u>	<u>51,947,720</u>	<u>15,374,344</u>	<u>15,639,112</u>	<u>68,421,736</u>	<u>67,586,832</u>
Investments in Capital						
Net of Related Debt	135,153,851	131,382,820	38,139,435	39,151,202	173,293,286	170,534,022
Restricted	34,504,525	29,022,856	-	-	34,504,525	29,022,856
Unrestricted	(16,364,199)	(15,492,009)	22,770,297	20,013,129	6,406,098	4,521,120
Total Net Assets	<u>\$ 153,294,177</u>	<u>\$ 144,913,667</u>	<u>\$ 60,909,732</u>	<u>\$ 59,164,331</u>	<u>\$ 214,203,909</u>	<u>\$ 204,077,998</u>

Total Assets:

Current and Other Assets include: Cash and Investments; Accounts Receivable and Receivables for Taxes, Interest, and Loans; Prepaid costs; Unamortized debt issuance costs; Deposits; Due from other governments; and Restricted assets of Cash with fiscal agent; and Internal Balances (Due to/from and Advances between the business activities and governmental activities).

Capital Assets include: Assets net of depreciation as well as assets not being depreciated (e.g., Streets, Land, Construction in progress).

Total Liabilities:

Long-Term Liabilities Outstanding include: Compensated absences payable, Claims and judgments payable, and Long-term debt payable.

Other Liabilities include: Accounts payable; Accrued interest; Unearned revenue; Deposits Payable; Due to other governments.

Net Assets

The chart above reflects the City's combined net assets (governmental and business-type activities) of \$214.2 million at the close of fiscal year ending June 30, 2007.

The largest portion of the City's total net assets (80.9%) reflects investment in capital assets (e.g., land, streets, sewers, buildings, machinery, and equipment) net of outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net assets (19.1%) represent resources that are subject to external restrictions (e.g., certain capital projects, community development, debt services).

Changes in Net Assets

As noted in the chart above, the City's fiscal year 2006-2007 total net assets increased by \$10.1 million, or 5.0%, from the prior year. The governmental activities net assets increased \$8.4 million, or 5.8%, while the business-type activities net assets increased \$1.7 million, or 3.0%.

The increase in net assets of governmental activities of \$8.4 million was due to an increase in total assets of \$9.5 million and an increase in liabilities of \$1.1 million. Within total assets, the increase in current and other assets was attributable to increases in revenues. Significant impacts to revenues were due to increases in program revenues, property taxes, and use of money and property (includes investment earnings). The offset to these revenues were increases in public safety which were primarily driven by increased personnel costs, and increases in housing and community development expenditures due to the housing Section 8 voucher program and transit related contracts and professional services. The increase in total liabilities was attributable to other liabilities which were caused by the timing of payments to vendors. Business-type activities showed a 3.0% increase in net assets basically due to charges for services, e.g., rubbish fees and parking citations, etc., and use of money and property, e.g., rents and investment earnings, for fiscal year 2006-2007.

City of Redondo Beach's Changes in Net Assets
Fiscal Year Ended June 30, 2007 and 2006

	Governmental Activities		Business-Type Activities		Total	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
Revenues:						
Program revenues:						
Charges for services	\$ 16,329,116	\$ 15,255,293	\$ 14,494,563	\$ 13,974,942	\$ 30,823,679	\$ 29,230,235
Operating grants and contributions	12,366,720	11,403,631	68,841	73,035	12,435,561	11,476,666
Capital grants and contributions	4,916,505	2,856,548	-	-	4,916,505	2,856,548
Total program revenues	<u>33,612,341</u>	<u>29,515,472</u>	<u>14,563,404</u>	<u>14,047,977</u>	<u>48,175,745</u>	<u>43,563,449</u>
General revenues:						
Property taxes	27,136,137	25,617,618	-	-	27,136,137	25,617,618
Sales taxes	10,205,436	9,906,235	-	-	10,205,436	9,906,235
Utilities users taxes	7,878,429	7,398,984	-	-	7,878,429	7,398,984
Motor vehicle license	429,612	453,645	-	-	429,612	453,645
Transient occupancy taxes	3,738,839	3,354,138	-	-	3,738,839	3,354,138
Franchise Taxes	1,685,711	1,767,452	-	-	1,685,711	1,767,452
Business license taxes	1,289,608	1,376,117	-	-	1,289,608	1,376,117
Use of money and property ¹	4,687,909	3,349,037	1,439,428	839,082	6,127,337	4,188,119
Other revenues	1,626,971	1,340,746	138,877	204,761	1,765,848	1,545,507
Total general revenues	<u>58,678,652</u>	<u>54,563,972</u>	<u>1,578,305</u>	<u>1,043,843</u>	<u>60,256,957</u>	<u>55,607,815</u>
Total revenue	<u>92,290,993</u>	<u>84,079,444</u>	<u>16,141,709</u>	<u>15,091,820</u>	<u>108,432,702</u>	<u>99,171,264</u>
Expenses:						
General government	10,019,467	10,638,910	-	-	10,019,467	10,638,910
Public safety	38,269,521	35,772,948	-	-	38,269,521	35,772,948
Public works	14,986,259	12,936,637	-	-	14,986,259	12,936,637
Cultural and leisure services	9,499,827	8,812,584	-	-	9,499,827	8,812,584
Housing and community development	12,194,088	11,749,944	-	-	12,194,088	11,749,944
Interest on long-term debt	1,696,368	2,122,317	-	-	1,696,368	2,122,317
Harbor Tidelands	-	-	4,902,841	4,447,965	4,902,841	4,447,965
Harbor Uplands	-	-	4,503,160	4,466,239	4,503,160	4,466,239
Solid Waste	-	-	3,493,852	3,225,121	3,493,852	3,225,121
Wastewater	-	-	2,122,793	2,686,646	2,122,793	2,686,646
Total expenses	<u>86,665,530</u>	<u>82,033,340</u>	<u>15,022,646</u>	<u>14,825,971</u>	<u>101,688,176</u>	<u>96,859,311</u>
Increase (decrease) in net assets before transfers	5,625,463	2,046,104	1,119,063	265,849	6,744,526	2,311,953
Transfers	-	-	-	-	-	-
Change in net assets	<u>5,625,463</u>	<u>2,046,104</u>	<u>1,119,063</u>	<u>265,849</u>	<u>6,744,526</u>	<u>2,311,953</u>
Net assets, beginning of year	144,913,667	141,733,707	59,164,331	58,789,917	204,077,998	200,523,624
Restatement of net assets	2,755,047	1,133,856	626,338	108,565	3,381,385	1,242,421
Net assets, end of year	<u>\$ 153,294,177</u>	<u>\$ 144,913,667</u>	<u>\$ 60,909,732</u>	<u>\$ 59,164,331</u>	<u>\$ 214,203,909</u>	<u>\$ 204,077,998</u>

¹ Includes investment earnings

Levels of revenues and expenditures also impact current assets and other liabilities and, therefore, cause changes in net assets. As reflected above, total revenues increased in fiscal year 2006-2007 by \$9.3 million, or 9.3%. The increase in revenues was due to charges for services, taxes, and use of money and property. The major increase from charges for services resulted from charging overhead to departments for services from supporting departments (Mayor and City Council, city Attorney, City Clerk, Financial Services, City Treasurer, City Manager, and Human Resources). Although essentially all tax categories increased, property tax was the most significant. Property tax growth 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. Use of money and property increased substantially due to increased market rates impacting the rate of return provided on the City's short to intermediate term investments.

The City also had an increase in expenses of \$4.8 million, or 5.0%, when compared to fiscal year 2005-2006. The increase in public works expenses resulted from cost of living increases related to personnel. The increase in housing and community development expenses is due to the housing Section 8 voucher program and transit related contracts and professional services. Further analysis is provided in the governmental and business-type activity sections below.

Governmental Activities

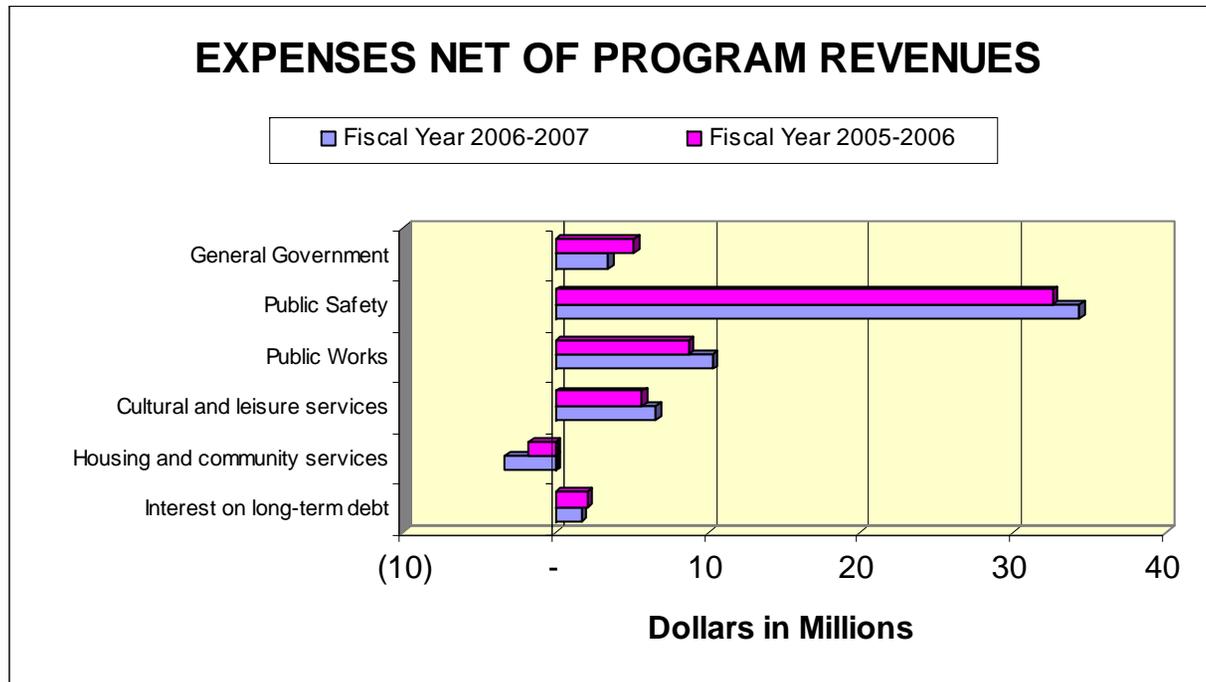
As reflected in the Changes in Net Assets schedule above, the total governmental activity expenses were \$86.7 million in fiscal year 2006-2007; whereas, total revenues from governmental activities were \$92.3 million, of which 36.4% were derived from program revenues.

On the following chart, the governmental activity expenses net of program revenues, increased \$535,321, or 1.0%, in fiscal year 2006-2007. Substantial decreases in expenses were experienced by General government due to the program revenue related to overhead. Public works expenses, Public safety expenses, and Cultural and leisure services increased due to cost of living related personnel expenses and overhead increases resulting from the implementation of recommendations from a cost allocation plan analysis. Housing and community development had an increase in revenues of \$1.5 million due to the recognition of grant revenue in fiscal year 2006-2007 that was deferred in fiscal year 2005-2006, the receipt of new grants that were not awarded to the City in prior years, and increases in reimbursements for the housing Section 8 voucher program. Interest on long-term debt decreased primarily due to an early partial redemption of the Public Financing Authority 2000 Tax Allocation Bonds. The reduction of the balance of outstanding bonds also allows for a reduction in interest expense.

Governmental Activities:	Impact to Net Assets		Percent Increase (Decrease)
	2006-2007	2005-2006	
<i>Expenses Net of Program Revenues*</i>			
General government	\$ (3,441,892)	\$ (5,147,010)	(33.1%)
Public safety	(34,346,523)	(32,581,296)	5.4%
Public works	(10,279,390)	(8,717,601)	17.9%
Cultural and leisure services	(6,582,124)	(5,693,846)	15.6%
Housing and community development	3,293,108	1,744,202	88.8%
Interest on long-term debt	(1,696,368)	(2,122,317)	(20.1%)
Total Governmental Activity Expenses			
Net of Program Revenues	<u>\$ (53,053,189)</u>	<u>\$ (52,517,868)</u>	1.0%

*Program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues.

The chart below is a graphical representation of the schedule above.

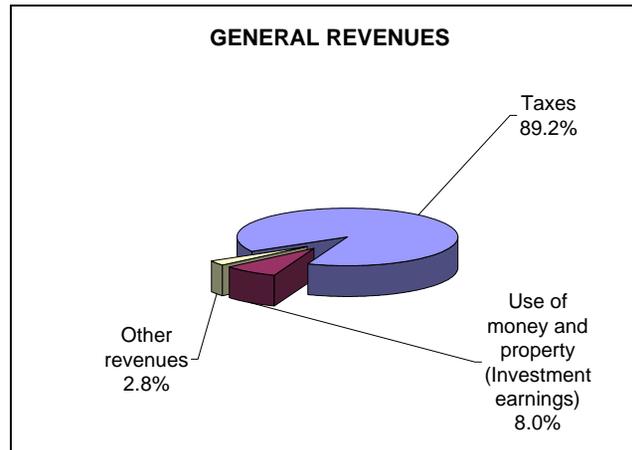


General Revenues Related to Governmental Activities

<u>General Revenues</u>	<u>2006-2007</u>	<u>2005-2006</u>
Taxes	\$ 52,363,772	\$ 49,874,189
Use of money and property ¹	4,687,909	3,349,037
Other revenues	1,626,971	1,340,746
Total General Revenues	<u>\$ 58,678,652</u>	<u>\$ 54,563,972</u>

¹ Includes investment earnings

General revenues are all other revenues not attributable to a specific program and, therefore, not categorized as program revenues. These revenues include taxes, investment earnings, use of money and property, and other revenues. Total general revenues from governmental activities were \$58.6 million in fiscal year 2006-2007. The largest percentage of these revenues for fiscal year 2006-2007 (89.2%) was derived from taxes, increasing 5.0%. This includes property taxes, transient occupancy taxes, sales taxes, business license taxes, utility users' taxes, and motor vehicle in lieu license fees. Although the remaining items makeup only 10.8% of General Revenues, these items in total reflected an increase of 33.9%. The largest increase was experienced in use of money and property of \$4.7 million from prior year, reflecting an increase of \$1.3 million, or 40.0%. The majority of this increase is attributable to the overall increase in market interest rates experienced during the year. The yield on the general investment portfolio rose during the fiscal year by 33 basis points, from 4.11% at the start of the fiscal year, to 4.44% at the close. Continued increases in the Federal Funds rate throughout the fiscal year boosted market interest rates of return in the short to intermediate sector in the investment yield curve, positively influencing the overall performance of the City's investment portfolio. To ensure core investment liquidity within the portfolio, approximately one quarter of the City's investments is maintained with the State Local Agency Investment Fund (LAIF). In line with the general increase in market interest rates experienced during the fiscal year, the yield on investments in LAIF increased significantly over the course of the year, commencing the fiscal year at 4.70% and ending at 5.25%.



Business-Type Activities

The City has four business-type activities: Harbor Tidelands, Harbor Uplands, Solid Waste, and Wastewater. These business-type activities increased the City's net assets by \$1.7 million from the prior year.

Solid Waste is the City's comprehensive solid waste program, which includes refuse collection, recycling, hazardous waste disposal, and street sweeping services. The solid waste program is supported through user service fees. The assets of Solid Waste essentially remained flat increasing only \$56,122 from prior year.

Wastewater is funded by a capital facility charge, or more commonly referred to as a sewer user fee. These funds are substantially used to service the City's debt relative to the sewer bond, which is restricted to sewer infrastructure improvements. The assets of Wastewater decreased \$280,314 from the prior year.

Harbor Tidelands is used for the operations of small boat harbor facilities available to the general public, including related pier activities. This fund is restricted under the City Tidelands Trust Agreement with the State of California. In fiscal year 2006-2007, the assets of the Harbor Tidelands increased \$164,474 from prior year.

Harbor Uplands is also used for the operations of small boat harbor facilities available to the general public, including related pier activities. However, the use of these funds is subject only to the decisions of the City Council. In fiscal year 2006-2007, the assets of Harbor Uplands decreased by \$399,524, from prior year. The major cause of the decrease was related to increases in repairs and maintenance.

INTERNAL SERVICE FUNDS

The City has six internal service funds: Vehicle Replacement, Building Occupancy, Information Technology, Self-Insurance Program, Printing and Graphics, and Emergency Communications. These funds are used to account for interdepartmental operations where the costs of services provided to the departments is financed or recovered by charging the user department.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

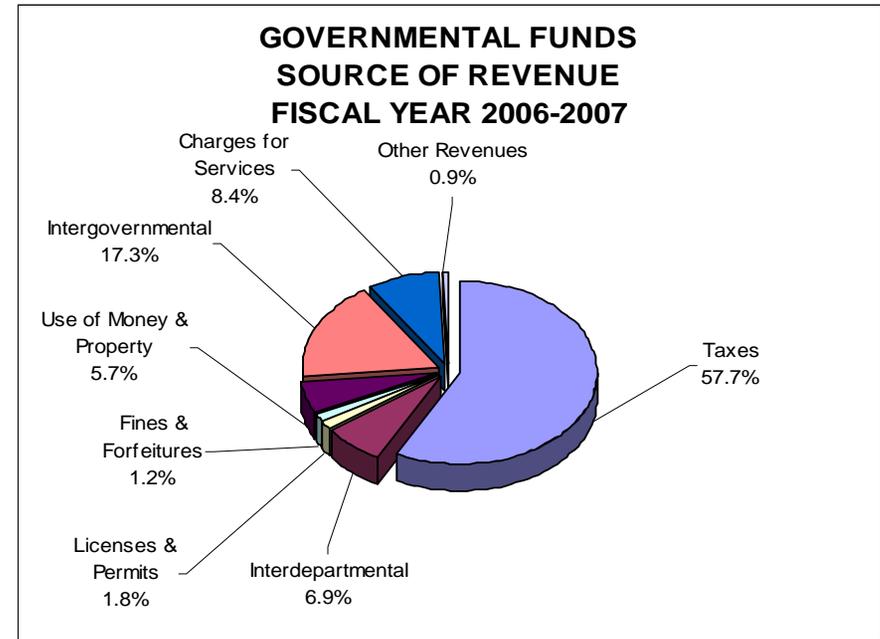
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund statements which follow are not reflected on a full accrual basis. Therefore, amounts reflected in the funds statements versus the Government-Wide statements may differ due to his change in accounting methodology.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental Funds - The following schedule is a summary of governmental fund revenues for fiscal year ended June 30, 2007, and includes Major and Non-Major Funds. It reflects the amount and percent of increase or decrease of each source of revenue compared to the prior year.

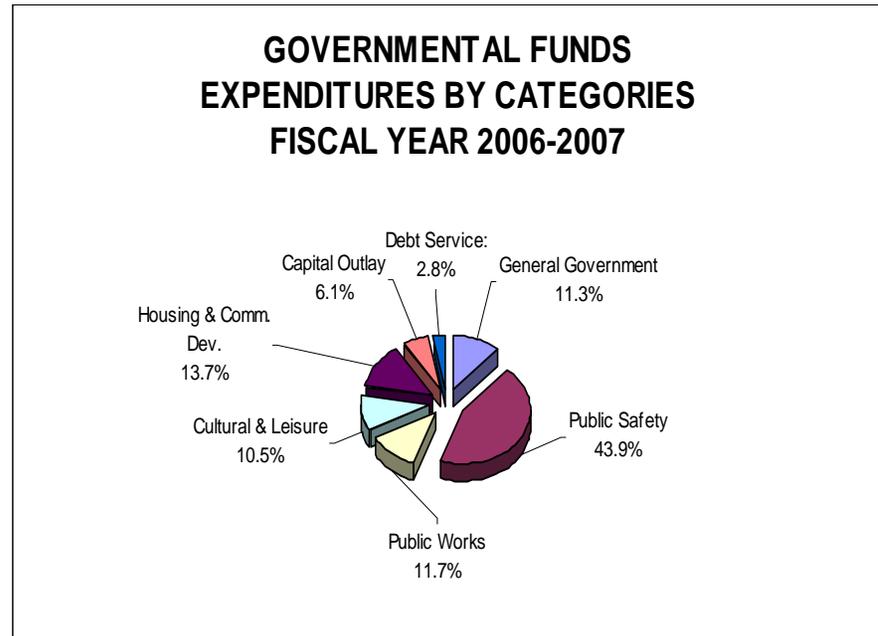
Source of Revenue	Amount FY 06-07	Percent of Total	Increase (Decrease) FY 05-06	Percent Increase (Decrease)
Taxes	\$ 52,569,593	57.7%	\$ 2,760,392	5.5%
Interdepartmental	6,314,753	6.9%	2,016,493	46.9%
Licenses & permits	1,660,339	1.8%	(346,347)	(17.3%)
Fines & forfeitures	1,117,196	1.2%	227,759	25.6%
Use of money & property	5,228,621	5.7%	1,531,038	41.4%
Intergovernmental	15,771,721	17.3%	1,288,865	8.9%
Charges for services	7,627,197	8.4%	(520,177)	(6.4%)
Other revenues	787,722	0.9%	26,906	3.5%
Total	\$ 91,077,142	100.0%	\$ 6,984,929	8.3%



Total governmental fund revenues increased \$7.0 million, or 8.3%, from fiscal year 2005-2006. The largest source of revenue was taxes, which increased \$2.8 million, or 5.5% which was primarily due to property tax as a result of continued strength in the level of assessed valuation growth, generated by a combination of factors including an accelerated level of real estate exchange, growth in new construction, and relatively low mortgage rates, as mentioned earlier. Interdepartmental increased \$2.0 million, or 46.9% due to the addition of the operations component of the emergency communications center. Licenses and permits revenue decreased \$346,347 due to building and parking permits. Fines and forfeitures revenue increased \$227,759 due to increases in court fines, parking citations, and traffic fines. Use of money and property revenue increased \$1.5 million, or 41.4% primarily due to investment earnings, which was mentioned earlier, and an increase in facility rentals. Charges for services decreased \$520,177. This decrease is due to an anomalous one-time payment received from Adelphia in fiscal year 2005-2006 that would not be collected in subsequent fiscal years. Other revenues increased \$26,906 due to community donations to various areas of the City.

The following schedule is a summary of governmental fund expenditures by function for fiscal year ended June 30, 2007, and includes both Major and Non-Major Funds. It reflects the amount and percent of increase or decrease for each functional category of expenditures compared to the prior year.

Expenditures	Amount FY 06-07	Percent Total	Increase (Decrease) FY 05-06	Percent Increase (Decrease)
Current:				
General government	\$ 9,878,387	11.3%	\$ (653,462)	(6.2%)
Public safety	38,254,942	43.9%	3,145,108	9.0%
Public works	10,218,116	11.7%	808,218	8.6%
Cultural and leisure services	9,120,765	10.5%	462,409	5.3%
Housing and community development	11,960,230	13.7%	618,277	5.5%
Capital outlay	5,318,230	6.1%	1,961,916	58.5%
Debt service	2,456,555	2.8%	(1,659,142)	(40.3%)
Total	\$ 87,207,225	100.0%	\$ 4,683,324	5.9%



Total governmental fund expenditures increased \$4.7 million or 5.9% from fiscal year 2005-2006. As mentioned earlier, the increases are attributable to:

- Public works increased by \$808,218 or 8.6% and public safety increased by \$3,145,108 or 9.0% due to cost of living related personnel expenses and overhead increases resulting from the implementation of recommendations from a cost allocation plan analysis.
- Housing and community development increased by \$618,277 or 5.5% due to the housing Section 8 voucher program and transit related contracts and professional services.
- Capital Outlay increased almost \$2.0 million or 58.5% due to an increase in citywide capital projects. Major projects included Residential Street Rehabilitation, Arterial Street Resurfacing, and city facilities improvements, such as repairing and improving the Fire Station 2 Training Tower. During this period, the City also procured new marquee and monument signs at the Performing Arts Center.

Offsetting these increases is a substantial decrease in debt service expenditures of \$1.7 million or (40.3%). The decrease is primarily due to an early partial redemption of the Public Financing Authority 2000 Tax Allocation Bonds in fiscal year 2005-2006, which caused substantial payment of interest and principal on these bonds. In fiscal year 2006-2007, no early redemptions were made and only the scheduled debt service was recorded.

The six major funds are Special Revenue – Redevelopment Agency Fund, Special Revenue – Other Intergovernmental Grants Fund, Capital Improvement Projects Fund, Debt Service - Redevelopment Agency Fund, Debt Service - Public Financing Authority Fund, and General Fund.

Special Revenue – Redevelopment Agency Fund – The fund balance of the Special Revenue – Redevelopment Agency Fund on June 30, 2007 was \$11.2 million, an increase of \$3.6 million from the prior year.

Special Revenue – Other Intergovernmental Grants Fund - The fund balance of the Special Revenue – Other Intergovernmental Grants fund on June 30, 2007 was (\$1.9) million, a decrease of \$1.1 million from the prior year.

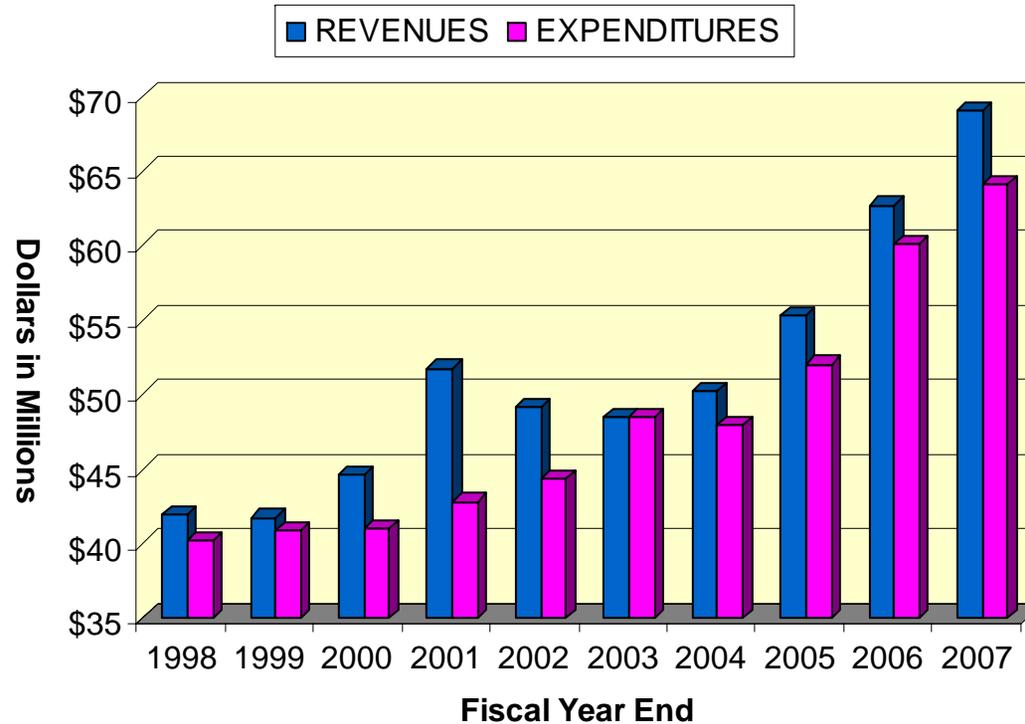
Capital Improvement Projects Fund - The fund balance of the Capital Improvement Projects fund on June 30, 2007 was \$10.6 million, an increase of \$2.7 million from the prior year.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency Fund on June 30, 2007, was a negative \$15.9 million, decreasing the negative fund balance by \$800,000 when compared to prior year.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2007, was \$12.6 million, reflecting a decrease of \$361,369 from fiscal year 2005-2006.

General Fund - The following graph illustrates the ten-year trend of General Fund revenues and expenditures. Interfund transfers have been excluded from this graphic presentation. The discussion which follows focuses on changes from fiscal year 2005-2006 to fiscal year 2006-2007.

**REVENUES VS. EXPENDITURES
General Fund – Last Ten Years**



Impacts of both increases and decreases to General Fund revenues resulted in a net increase of \$6.4 million, or 10.2%, from fiscal year 2005-2006. The majority of the increase in revenue was due to taxes, interdepartmental revenues, use of money and property.

General fund expenditures increased by \$4.0 million, or 6.6%. As mentioned earlier, increases were due to cost of living related personnel costs, overhead with the implementation of recommendations from a cost allocation plan analysis, and other internal service fund charges for which the allocation bases continue to be refined.

General Fund Balance

The fund balance of the General Fund, which includes transfers out of \$6.7 million, as of June 30, 2007 was \$11.1 million, a decrease of \$1.7 million, when compared to the prior year. The City Council approved the designations of the General Fund balance reflected below.

	GENERAL FUND DESIGNATIONS		
	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>FY 06-07</u>
General Fund Contingency	\$ 4,947,200	\$ 5,642,575	\$ 5,647,843
Compensated Absences	857,705	729,455	975,405
Carryover Designations	561,110	886,383	1,350,448
Retiree Medical Insurance	2,000,000	633,000	406,000
Traffic Mitigation	300,000	-	-
General Plan Circulation Update	200,000	-	-
Emergency Preparedness/EOC	200,000	-	-
ADA/Civic Facility Improvements	66,000	-	-
Health Ins Premium Increases	-	-	274,000
Future Labor Negotiations	-	-	800,000
Future Years' Appropriations	-	1,480,000	672,517
Undesignated Balance	253,676	542,843	214,115

As part of year-end activities, the City Council reviews the General Fund balance and determines how the City should designate the unreserved portion. As illustrated above, Council designations of General Fund balance over the past several years reflect the City's Strategic Plan. Aside from policy-designated amounts (i.e., contingency reserve and compensated absences), much of the money is set aside to accomplish strategic goals.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended fiscal year 2006-2007 budget totaled \$69.5 million, including net amendments of \$1,783,282 to the originally adopted budget. The City Council adopts budget adjustments during the year to reflect both changed priorities and consideration of events that took place subsequent to the budget adoption. The amendments can be briefly summarized as follows:

- Appropriation of \$464,103 for labor agreement modifications.
- Additional departmental appropriations of \$106,000 for professional services to perform financial management software implementation and building plan checking.
- Funding of prior-year encumbrances of \$738,124.
- Funding of carry-over appropriations of \$886,383.
- Funding of mid-year appropriations of (\$411,328).

Budget amendments were funded from/credited to available fund balance. During the year, however, revenues exceeded budgetary estimates by \$2.2 million and expenditures were \$5.5 million less than budgetary estimates, primarily due to personnel vacancies, a miscalculation in the fiscal year 2006-2007 budgeted personnel amounts, and contractual services that were not completed by year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the City, including infrastructure assets are those assets used in the performance of the City's functions. At June 30, 2007, net capital assets of the governmental and business-type activities totaled \$135.2 million and \$40.2 million, respectively. Depreciation on capital assets is recognized in the Government-Wide financial statements.

The City has elected to use the "Modified Approach" as defined by GASB 34 for infrastructure reporting for its paving system (streets). Under GASB 34, eligible infrastructure capital assets are not required to be depreciated as long as:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of: 1) an up-to-date inventory, 2) condition assessments which summarize the results using a measurement scale, and 3) estimated annual amounts budgeted to maintain and preserve an established condition assessment level.
- The City documents the eligible infrastructure capital assets being preserved approximately at, or above the established and disclosed condition assessment level.

City policy is to achieve an average rating of 8.0 for all streets by fiscal year 2007-2008. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of fiscal year 2003, the City established the standard rate of 7.0, and as of June 30, 2007 the City's street system was rated at a PQI of 7.7.

The City's budget for street maintenance for the fiscal year ended June 30, 2007 was \$6.5 million. Actual expenditures were \$1.9 million, with the remaining budget carried forward as continuing appropriations. The City is judiciously investing in this infrastructure asset as part of the five-year Capital Improvement Program and will continue to rehabilitate and maintain its streets in order to achieve this goal. The expenditure required to maintain and improve the overall condition of the streets from July 1, 2005 through June 30, 2007 is a minimum of \$16.8 million.

More information on the modified approach for City streets infrastructure capital assets is behind the tab section titled Required Supplementary Information.

Description	Original Cost	Accumulated Depreciation	Book Value
Capital Assets - Governmental Activities			
Land	\$ 16,522,947	\$ -	\$ 16,522,947
Buildings and Improvements	36,714,813	(10,997,924)	25,716,889
Equipment, Vehicles, Machinery	17,366,505	(10,102,522)	7,263,983
Work in Progress	1,003,491		1,003,491
Construction in Progress	246,811		246,811
Infrastructure	118,052,941	(33,652,292)	84,400,649
Total	\$ 189,907,508	\$ (54,752,738)	\$ 135,154,770
Capital Assets - Business-Type Activities			
Land	\$ 11,323,255	\$ -	\$ 11,323,255
Buildings and Improvements	27,821,275	(11,581,404)	16,239,872
Equipment, Vehicles, Machinery	1,025,453	(504,466)	520,987
Construction in Progress	-		
Infrastructure	21,033,865	(8,911,373)	12,122,492
Total	\$ 61,203,848	\$ (20,997,243)	\$ 40,206,605

For more information on the City's capital assets, refer to Note 6 of the Notes to Financial Statements and also the tab section titled Capital Assets Used in the Operation of Governmental Funds.

DEBT ADMINISTRATION

Debt service funds are used to account for the accumulation of resources for payment of interest and principal on bonds issued by the City. The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita for the fiscal year 2006-2007 are provided below. These indicators provide important information for management and concerned citizens, as well as potential investors.

	<u>Amount</u>	<u>Ratio of Debt to Assessed Value of Property</u>	<u>Debt per Capita</u>
Net Direct: Bonded Debt	\$ 23,935,000	0.23%	\$ 354.62

The current bonds for the City are those which have been issued by the Public Financing Authority. The bonds outstanding as of June 30, 2007, are the South Bay Redevelopment Project 1996 Revenue Bonds in the amount of \$8.8 million, the Aviation High School Redevelopment Project 2000 Tax Allocation Bonds in the amount of \$3.0 million, the Redondo Pier Reconstruction Project 2001 Refunding Revenue Bonds in the amount of \$2.4 million, and the Wastewater System Financing Project 2004 Revenue Bonds in the amount of \$9.8 million. The South Bay Center bonds were issued to provide funds to acquire the 1996 Tax Allocation Bonds of the Redevelopment Agency, used to finance certain redevelopment activities with respect to the South Bay Center Project Area, and to provide new monies for certain public capital improvements within the City. The Aviation bonds were issued to provide funds to finance redevelopment projects in the Agency's Aviation High School Redevelopment Project Area. The Redondo Pier Reconstruction bonds were issued to refund the Redevelopment Agency's outstanding Tax Allocation and Revenue bonds issued in 1993, and to provide funds to finance certain development activities of the Agency within, or of benefit to the Redevelopment Agency's Harbor Center Redevelopment Project Area. The Wastewater System Financing bonds were issued to finance certain improvements and related facilities which constitute part of the Wastewater Enterprise. The City has no general obligation bond indebtedness.

For a complete listing of the City's long-term debt obligations, refer to Note 8 of the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Because the economic upswings of the past few years have subsided and the economy now seems to be slowing, the City developed its fiscal year 2007-2008 budget projecting General Fund revenues to increase 1.7%, or \$1.1 million over the fiscal year 2006-2007 final budget. Budgetary expectations reflect:

- Property tax revenue is projected to increase by 5.2%, or \$853,000, to \$17,288,000 from the fiscal year 2006-2007 final budget, excluding property tax in lieu of VLF and homeowners' exemptions. Property tax revenue continues to increase moderately due to the combination of strong new construction, moderate levels of real estate sales, location desirability of the community, and Proposition 13 valuation growth.

- Sales and use tax revenue is projected to decline by 0.4%, or \$39,000 to \$10,300,000. This projection is based on analysis of current revenue trends, including annual adjustments to the State “triple flip” sales tax apportionment, receipts from our largest sales tax sources, stable levels of consumer disposable income, heightened regional sales tax competition, moderating consumer confidence, and in-depth analysis of the components of the local sales tax data base influencing the overall performance of our sales and use tax revenue stream.
- Utility users’ tax (UUT) revenue is projected to moderately increase by 1.4%, or \$51,000, to \$3,605,000. This estimate is based upon analysis of the projected performance from each of the categorical components of the City’s UUT tax base, including electricity, natural gas, telecommunications, water, and cable television. UUT on electricity services represents \$3.46 million, or 44% of this revenue source, while \$2.50 million or 32% is provided from the UUT on telecommunications services, which includes both wired and wireless services. Competition among utility providers, advancement in technology, and growth in the overall demand for utilities services over the near term will continue to gradually increase the level of UUT revenue provided to support the provision of essential City operational services. This somewhat optimistic view of UUT revenue is offset, however, with changes in technology, litigation, and legislation relating to the evolving telecommunications industry challenging the future viability of telecommunications based UUT resources. The City continues its proactive efforts addressing the challenges impacting this key tax-based operating revenue source.
- Franchise fees are estimated to increase modestly by 5.1%, or \$92,000 to \$1,905,000. Components of franchise fee revenue include Time Warner cable television operations, Southern California Edison electricity franchise, Southern California Gas operations, and taxicab franchise fees. With the exception of revenues from Southern California Gas, revenues from franchise fee sources reflect moderate increases in line with growth in local operations. Cable television franchise revenue represents 40% of the overall franchise fee revenue estimate for fiscal year 2007-2008, while projected revenue from the electricity franchise represents 21%. The gas franchise revenue, generated from the sale and transport of natural gas utilized to power the local AES Power Plant represents 35% of the total franchise fee estimate. Cyclical uncertainties of the deregulated energy environment and their impact upon the productive utilization rate of the AES Power Plant require continued utilization of a conservative estimate from this revenue source.
- Investment earnings for the General Fund for fiscal year 2007-2008 are projected to increase by 8.8%, or \$139,000, to \$1,480,000. This increase is based upon conservatively postured projected increases in both the size of the overall investment portfolio and the yield generated within the overall investment portfolio. Slightly increasing yields provided within the investment marketplace should improve the overall return on the City’s diversified investment portfolio. Enhanced cash management activities, coupled with the City’s continued participation in the California Statewide Communities Tax and Revenue Anticipation Note (TRAN) program, serve as core elements of the City Treasurer’s comprehensive cash management program. In addition, implementation of a strategically focused capital improvement program (CIP) cash management plan will serve to enhance investment returns from CIP funding sources, while insuring CIP program liquidity.
- Motor vehicle fees are projected in two parts – One part, the Motor Vehicle in-lieu fees (VLF) are projected as part of the Intergovernmental revenues. These fees are projected by the State Department of Finance and scheduled to decrease by \$9,000, or 2.1%, to \$429,600. This reduction is attributable to the State withholding a greater apportionment of the City’s funds for State administrative and Health and Welfare Program costs. The other part of this fee is allocated to the City through property tax. This is called the Property Tax in Lieu of Vehicle License Fee (VLF) revenue and is projected to increase \$251,000, or 5.4%, to \$4,897,000. Growth in this revenue source now parallels growth in City property tax revenue.

Budgeted General Fund appropriations decreased 2.4%, or \$1.7 million, to \$67,801,239, from the prior final budget. Personnel costs decreased 0.9%, primarily due to an overstatement of personnel expenses in fiscal year 2006-2007. Internal service fund allocations increased 0.7%, or \$115,000, due to the addition of an emergency communications operations component. There were significant cost reductions in maintenance and operations expenditures of 17.9% from the prior year’s final budget resulting from reductions to contracts and professional services. While

longer term projections indicate that the City must continue to keep a tight reign on spending, no significant reductions in City services are anticipated.

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 as reported by the U.S. Census Bureau's American Community Survey.

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.

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.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Financial Services Department at 415 Diamond Street, Redondo Beach CA 90277, phone 310-372-1171, or e-mail FinanceMail@redondo.org