

**CITY OF REDONDO BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 1: Summary of Significant Accounting Policies**

The basic financial statements of the City of Redondo Beach, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

**a. Reporting Entity**

The City was incorporated on April 29, 1892, under the laws of the State of California and enjoys all the rights and privileges applicable to a Charter City. It is governed by an elected Mayor and five-member council.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, and data from these units is combined with data of the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units. The following entities are reported as blended component units:

The Redevelopment Agency of the City of Redondo Beach

The Redevelopment Agency of the City of Redondo Beach (Agency) was established on April 30, 1962, pursuant to the State of California Health and Safety Code, Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development for blighted areas within the territorial limits of the City. The Agency has the same governing board as the City, which also performs all accounting and administrative functions for the Redevelopment Agency.

The Parking Authority of the City of Redondo Beach

The Parking Authority of the City of Redondo Beach (Parking Authority) was established on March 3, 1969, pursuant to the provisions of the Streets and Highway Code of the State of California. The principal purpose of the Parking Authority is to provide public off-street parking within the City. The Parking Authority serves all the citizens of the government and is governed by a board comprised of the government's elected council.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Redondo Beach Housing Authority

The Redondo Beach Housing Authority (Housing Authority) was formed on June 2, 1975, for the purpose of providing affordable, decent housing for lower income residents of the City. The Housing Authority operates the Fair Housing and Section 8 housing programs. The Housing Authority serves all the citizens of the government and is governed by a board comprised of the government's elected council.

The Redondo Beach Public Financing Authority

The Redondo Beach Public Financing Authority (Financing Authority), a joint powers authority, was formed on June 25, 1996, to provide financing for capital improvement projects. The Agency joined with the City to form the Financing Authority, which is accounted for as a component unit of the Agency. The Financing Authority operates rental property and issues bonds to provide funds to public capital improvements. The Financing Authority has the same governing board as the City, which also performs all accounting and administrative functions for the Financing Authority.

The Redevelopment Agency's financial statements, as well as financial information relating to the other agencies, can be obtained from the City of Redondo Beach's City Clerk's Office or Financial Services Department located at City Hall.

**b. Government-Wide and Fund Financial Statements**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Assets, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The following interfund activities have been eliminated:

- Due to/from other funds
- Advances to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds individually and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that have met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

Revenues are recorded when received in cash, except revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, franchise taxes, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows for each major proprietary fund.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for using the accrual basis of accounting.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.
- The Other Intergovernmental Grants Fund accounts for federal, state and other governmental agencies grant funding that supplements local funding.
- The Redevelopment Agency Fund (Special Revenue) accounts for the accumulation of, and the payments of, redevelopment activities within the project areas and to account for the general redevelopment operation of the Redevelopment Agency of the City.
- The Capital Improvement Projects Fund account for capital improvements for the City.
- The Public Financing Authority (Debt Service) Fund accounts for the payment of interest and principal on tax allocation bonds and other debt issued to finance city and redevelopment activities.
- The Redevelopment Agency (Debt Service) Fund accounts for the accumulation of resources for, and the payment of, interest and principal on tax allocation bonds and other debt issued to finance redevelopment activities within the project areas.

The City reports the following major proprietary funds:

- The Harbor Tidelands Fund accounts for the operations of small boat harbor facilities available to the general public, including related pier activities. The use of this fund is restricted under the City Tideland Trust Agreement with the State of California.
- The Harbor Uplands Fund accounts for the operations of small boat harbor facilities available to the general public, including related pier activities. The use of this fund is subject only to the decisions of the City Council.
- The Wastewater Fund accounts for the capital facility charge, more commonly referred to as a sewer user fee. The capital facility charge is designed to reimburse the City's wastewater system for the capital costs to provide wastewater capacity to new system users. This charge is associated with the expansion of the system required over time to address increases in wastewater flow generated by new development.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

Agency Funds

- The Deposit Fund was established to account for miscellaneous customer deposits, such as building permits, signage posting, etc., as well as accounting for funds held for Section 125 employee benefits.
- The Assessment District 92-1 accounts for the receipt of assessments and the payment of principal and interest and bond administration costs on Bond. This fund is treated as an agency fund because there isn't any City liability for their repayment.

The Special Revenue Funds account for the proceeds collection from specific revenue sources or revenue received from third parties and the related expenditures.

The Internal Service Funds account for interdepartmental operations where it is the stated intent that costs of providing services to the departments of the City on a continuing basis be financed or recovered primarily by charges to the user departments. The City's Internal Service Funds are for vehicle replacement, building occupancy, information technology, self-insurance, printing and graphics, and Communications Equipment Replacement.

**c. Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes in which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**d. Cash, Cash Equivalents and Investments**

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities in which market quotations are readily available.

The City participates in an investment pool managed by the State of California, titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents including cash and investments with fiscal agents.

**e. Restricted Cash and Investments**

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects. Cash and investments are also restricted for deposits held for others within the enterprise funds.

**f. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**g. Interfund Transactions**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans)." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

**h. Capital Assets**

Capital assets, which include land, buildings, improvements, equipment, furniture and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated.

City policy has set the capitalization thresholds for reporting capital assets at the following:

General Capital Assets	\$ 5,000
Infrastructure Capital Assets	25,000
Buildings, Parking Structures and Parking Lots	100,000

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

The City has chosen the Modified Approach for reporting of the Street Pavement Subsystem infrastructure assets and as a result no depreciation is recorded for that system. For all other assets, depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

<u>Asset</u>	<u>Years</u>
Buildings and Improvements	45
Equipment	5 - 20
Vehicles	4 - 20
Infrastructure	5 - 60

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 requiring the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure in its Basic Financial Statements.

The City defines infrastructure as physical assets that allow the City to function. The assets include:

- Street system
- Site amenities, such as parking and landscaped areas, used by the City in the conduct of its business
- Underground utilities

Each major infrastructure network can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, concrete curb and gutters, sidewalks, medians, etc. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

In June 2002, a visual survey of all pavement segments was conducted to assess the existing surface condition of each of the individual pavement segments. Upon completion of the study, a Pavement Quality Index (PQI) was calculated for each segment in the City's pavement network to reflect the overall pavement condition. Ratings ranged from 0 to 10. A PQI of 0 would correspond to badly deteriorated pavement with virtually no remaining life; a PQI of 10 would correspond to pavement with proper engineering design and construction at the beginning of its life cycle. During the year, the visual survey is updated to reflect the pavement's current condition.

The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Very Good	9.0 - 10.0
Good	7.0 - 8.9
Fair	5.0 - 6.9
Poor	0.0 - 4.9

In line with the Capital Improvement Program and as presented to City Council on December 17, 2002, 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. For 2003, the City established the standard of 7.0; for 2005, 2006 and 2007, the City's street system was rated at a PQI of 7.8 on the average. For a detailed description of the Modified Approach, see the Required Supplementary Information Section of this report.

For all other infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City conducted a valuation of its infrastructure assets as of July 1, 2002. This valuation determined the original cost using one of the following methods:

1. Use of historical records where available.
2. Standard unit costs appropriate for the construction/acquisition date.
3. Present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

Accumulated depreciation is defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line method using industry accepted life expectancies for each infrastructure subsystem. The book value is computed by deducting the accumulated depreciation from the original cost.

Interest accrued during capital asset construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**i. Interest Payable**

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the fund financial statements, governmental fund types do not recognize interest payable, while proprietary fund types recognize the interest payable when the liability is incurred.

**j. Unearned Revenue and Deferred Revenue**

In the government-wide financial statements, unearned revenue is recognized for transactions in which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are long-term loans receivable and prepaid charges for services.

In the fund financial statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions in which revenues have not been earned, or in which funds are not available to meet current financial obligations. Typical transactions in which deferred revenue is recorded are grants received but not yet earned or available.

**k. Compensated Absences Payable**

Only the short-term liability for compensated absences (the amount due to employees for future absences, such as vacation and compensatory time, which are attributable to services already rendered) is reported as a current liability in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements; the long-term liability is reported in the government-wide financial statements. The short-term liability is the amount that will be liquidated with current financial resources and is expected to be paid during the next fiscal year. All of the liability for compensated absences applicable to proprietary funds is reported in those funds.

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Employees may accrue from two to three times their annual accrual rate. Upon termination an employee will be paid for any unused accrued vacation pay. Sick leave is payable when an employee is unable to work because of illness. Unused sick leave is forfeited upon termination.

**l. Claims and Judgments Payable**

The short-term and long-term claims are reported as one liability in the Self-Insurance Program Internal Service Fund. The short-term liability, which will be liquidated with current financial resources, is the amount of settlement reached, but unpaid, related to claims and judgments entered.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**m. Long-Term Debt**

Government-Wide Financial Statements

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount.

Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

**n. Net Assets**

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

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

**o. Fund Balances - Reservations and Designations**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**p. Property Taxes**

Under California law, property taxes are assessed and collected by the counties on up to 1% of assessed property value, plus other increases approved by the voters. Property taxes collected are pooled and then allocated to the cities based on complex formulas.

January 1	Lien Date
June 30	Levy Date
November 1 and February 1	Due Dates
December 10 and April 10	Collection Dates

Distribution Dates:

August 18, 2006	Unsecured taxes
November 20, 2006	Unsecured, redemptions, and SB813 taxes
December 20, 2006	Homeowners' exemption, secured, and SB813 taxes
January 19, 2007	Homeowners' exemption, secured, and SB813 taxes
February 20, 2007	Redemptions, secured, and SB813 taxes
March 20, 2007	Secured and SB813 taxes
April 20, 2007	Secured and SB813 taxes
May 18, 2007	Redemptions, homeowner's exemption, secured, and SB813 taxes
June 20, 2007	Homeowners' exemption, SB813 taxes
July 20, 2007	Secured and SB813 taxes
August 20, 2007	Secured, redemptions, unsecured, and SB813 taxes

**q. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**Note 2: Stewardship, Compliance and Accountability**

**a. Budgetary Information**

Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget serves from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The City Council approves each year's budget prior to the beginning of the new fiscal year.
2. The City Council's policy is to adopt an annual line-item budget for the general, special revenue, debt service and capital projects funds.
3. Public hearings are conducted by the Council prior to budget adoption.
4. Supplemental appropriations, when required during the period, are also approved by the Council. Intradepartmental budget changes within the same fund are approved by the City Manager.
5. Expenditures may not exceed appropriations at the departmental level, which is the legal level of control.
6. GAAP serves as a budgetary basis of accounting.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general, special revenue, debt service and capital projects funds. Unexpended and unencumbered appropriations of these governmental funds automatically lapse at the end of the fiscal year. Encumbrances outstanding at year-end are reported as a reservation of fund balances. They do not constitute expenditures or estimated liabilities.

The Pier Parking Structure Rehabilitation Fund and Parking Authority did not have a legally adopted budget; therefore the schedules are not presented in the supplementary schedules.

City of Redondo Beach  
Notes to Financial Statements (Continued)

Note 2: Stewardship, Compliance and Accountability (Continued)

b. Excess of expenditures over appropriations in individual funds is as follows:

Fund	Appropriations	Expenditures	Excess
Major Funds:			
Other Intergovernmental Grants Fund:			
Housing and community development	\$ 99,088	\$ 118,305	\$ (19,217)
Public works	63,457	64,156	(699)
Redevelopment Agency - Debt Service:			
General government		37,379	(37,379)
Principal payment	140,000	327,462	(187,462)
Redevelopment Agency - Capital Projects Fund:			
General government	545,578	573,507	(27,929)

c. Deficit Fund Balance

The following funds had a deficit fund balance as of June 30, 2007:

Major Funds:	
Other Intergovernmental Grants	\$ (1,922,940)
Redevelopment Agency - Debt Service Fund	(15,903,201)
Non-Major Funds:	
Transit Fund	(9)
Local Transit	(341)
South Bay Youth Project	(32,469)
Workforce Investment Act	(62,752)
Community Development Block Grant	(1,472)

The deficit fund balances are expected to be recovered through grant and other revenues and inter-fund transfers.

City of Redondo Beach  
Notes to Financial Statements (Continued)

**Note 3: Cash and Investments**

As of June 30, 2007, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 63,086,293
Business-type activities	25,916,063
Fiduciary funds	<u>58,797,473</u>
Total Cash and Investments	<u>\$ 147,799,829</u>

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest Income from cash and investments with fiscal agents is credited directly to the related fund.

Deposits

At June 30, 2007, the carrying amount of the City's deposits was \$60,086,443 and the bank balance was \$60,263,366. The \$176,923 difference represents outstanding checks and other reconciling items. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local government agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

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

**Note 3: Cash and Investments (Continued)**

Investments

Under provisions of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- United States Treasury Bills, Notes and Bonds
- Obligations issued by the Federal Government
- Bankers Acceptances with a maturity of 180 days or less
- Time Deposits
- Negotiable Certificates of Deposit
- Commercial Paper with a maturity of 270 days or less
- Local Agency Investment Fund
- Medium-Term Notes (5-yr maturity or less) of domestic Corporations or Depository Institutions
- Mutual Funds
- Guaranteed Investment Contract not to exceed \$5 million annually

Investments Authorized by Debt Agreements

The City investment policy applies to all financial assets, investment activities and debt issues of the City (including funds which are invested by trustees appointed under debt trust indentures, with direction from the City Treasurer).

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code, Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shared.

GASB Statement No. 31

The City adopted GASB Statement of No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

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

**Note 3: Cash and Investments (Continued)**

Credit Risk

The City's investment policy limits investments in medium-term notes (MTN's) to those rated "AA" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2007, all MTN's were rated "AA" Moody's. As of June 30, 2007, the City's Federal Agency investments were rated Aaa/AAA by Moody's and S&P, respectively. All securities were investment grade and were legal under State and City law. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2007, the City's investments in external investment pools are unrated.

Custodial Credit Risk

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

As of June 30, 2007, none of the City's deposits or investments was exposed to custodial credit risk.

Concentration of Credit Risk

The City's investment policy imposes restrictions on the maximum percentage it can invest in a single type of investment. Investments in Federal Agencies have the implied guarantee of the United States government. While all the City's investments are in compliance with the City's investment policy, as of June 30, 2007, in accordance with GASB Statement No. 40, if a city has invested more than 5% of its total investments in any one issuer, they are exposed to concentration of credit risk.

The City has invested more than 5% of the total investment value with the following issuers:

Federal National Mortgage Association	\$ 7,982,269	9.10%
Federal Home Loan Mortgage Corp.	6,928,770	7.90%
Federal Home Loan Bank	27,763,800	31.65%
Rabobank International Investment Agreement	4,572,362	5.21%

Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

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

**Note 3: Cash and Investments (Continued)**

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 50% of the City's portfolio shall mature in three years or less; and at least 25% in one year or less. The only exception to these maturity limits shall be the investment of the gross proceeds of tax-exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2007, the City had the following investments and remaining maturities:

Investment Type:	Investment Maturities				Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	3 to 5 years	
External Investment Pools -					
Local Agency Investment Fund	\$ 28,714,730	\$	\$	\$	\$ 28,714,730
Federal Agencies -					
Federal National Mortgage Assoc.	1,986,560	990,000	3,978,430	1,027,279	7,982,269
Federal Home Loan Mortgage Corp.		1,963,120	2,986,010	1,979,640	6,928,770
Federal Home Loan Bank	5,974,690	3,959,390	13,828,460	4,001,260	27,763,800
Federal Farm Credit Bank			1,968,440	993,750	2,962,190
Corporate Bonds			3,936,790		3,936,790
Treasury Obligations -					
First American Treasury Obligation	1,870,610				1,870,610
AIM Pers CL Treasury	2,294,202				2,294,202
AIM Stic Treasury Portfolio	24,413				24,413
Investment Agreements -					
AIG Matched Fund Corp.	663,250				663,250
Rabobank International			4,572,362		4,572,362
<b>Total Investments</b>	<b>\$ 41,528,455</b>	<b>\$ 6,912,510</b>	<b>\$ 31,270,492</b>	<b>\$ 8,001,929</b>	<b>\$ 87,713,386</b>

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

**Note 4: Receivables**

The following is a summary of receivables net of allowances for uncollectible amounts at June 30, 2007:

	Government-Wide Statement of Net Assets		Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities	Business- Type Activities		
Accounts receivable	\$ 740,642	\$ 615,911	\$ 19,818	\$ 1,376,371
Interest receivable	754,712	151,895	1,088	907,695
Taxes receivable	4,480,398	122,880	65,817	4,669,095
Loans receivable	6,715,973	302,971		7,018,944
Total Receivables	<u>\$ 12,691,725</u>	<u>\$ 1,193,657</u>	<u>\$ 86,723</u>	<u>\$ 13,972,105</u>

**Fund Financial Statements**

At June 30, 2007, the Fund Financial Statements show the following receivables:

**a. Accounts Receivable**

Accounts receivable consisted of amounts accrued in separate funds in the ordinary course of operations. The total amount of accounts receivable for each major fund and non-major fund in the aggregate as of June 30, 2007, was as follows:

Governmental Funds:	
General Fund	\$ 632,845
Public Financing Authority - Debt Service	24,347
Non-Major Funds	<u>72,214</u>
Total Governmental Funds	<u>729,406</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	215,530
Harbor Uplands - Enterprise Fund	270,449
Wastewater Fund - Enterprise Fund	39,859
Non-Major Funds	90,073
Internal Service Funds	<u>11,236</u>
Total Proprietary Funds	<u>627,147</u>
Fiduciary Funds:	
Agency Funds	<u>19,818</u>
Total Fiduciary Funds	<u>19,818</u>
Total Accounts Receivable	<u>\$ 1,376,371</u>

City of Redondo Beach  
Notes to Financial Statements (Continued)

Note 4: Receivables (Continued)

b. Interest Receivable

Interest receivable consists of interest from investments pooled by the City and is distributed among the funds according to their ending cash balances. The interest receivable as of June 30, 2007, was as follows:

Governmental Funds:	
General Fund	\$ 570,395
Other Intergovernmental Grants - Special Revenue	1,347
Redevelopment Agency Fund - Special Revenue	76,433
Public Financing Authority - Debt Service	2,211
Non-Major Funds	104,326
Total Governmental Funds	<u>754,712</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	108,232
Harbor Uplands - Enterprise Fund	43,337
Non-Major Funds	326
Total Proprietary Funds	<u>151,895</u>
Fiduciary Funds:	
Agency Funds	1,088
Total Interest Receivable	<u>\$ 907,695</u>

c. Taxes Receivable

At June 30, 2007, the City had the following taxes receivable:

Type of Taxes:	Governmental Funds			Non-Major Governmental Funds	Proprietary Funds		Fiduciary Net Assets	Total
	General Fund	Redevelopment Agency Fund - Special Revenue	Redevelopment Agency Fund - Debt Service		Solid Waste	Waste- Water	Agency Funds	
Property taxes	\$ 884,744	\$ 38,900	\$ 100,290	\$ 43,662	\$ 87,679	\$ 35,201	\$ 65,817	\$ 1,256,293
Sales taxes	2,158,678							2,158,678
Transient occupancy taxes	334,789							334,789
Utility users taxes	609,116							609,116
Transfer Tax	182,616							182,616
Gas Tax				113,169				113,169
Motor Vehicle License	13,402							13,402
Other tax	1,032							1,032
Total Taxes Receivable	<u>\$ 4,184,377</u>	<u>\$ 38,900</u>	<u>\$ 100,290</u>	<u>\$ 156,831</u>	<u>\$ 87,679</u>	<u>\$ 35,201</u>	<u>\$ 65,817</u>	<u>\$ 4,669,095</u>

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

**Note 4: Receivables (Continued)**

**d. Loans Receivable**

At June 30, 2007, the City had the following loans receivable:

	Governmental Funds			Proprietary Fund	Total
	General Fund	Redevelopment Agency - Special Revenue Fund	Non-Major Governmental Funds	Harbor Tidelands - Enterprise Fund	
Home Improvement Program	\$	\$ 675,234	\$ 233,714	\$	\$ 908,948
Rental Rehab Program			271,683		271,683
Landlord Program			21,669		21,669
Senior Housing Program		5,502,632			5,502,632
Computer Loan Program	11,041				11,041
Harbor Area Business Loan				302,971	302,971
<b>Total Loans Receivable</b>	<b>\$ 11,041</b>	<b>\$ 6,177,866</b>	<b>\$ 527,066</b>	<b>\$ 302,971</b>	<b>\$ 7,018,944</b>

**Home Rehabilitation Loans**

At June 30, 2007, the City was owed, in its Redevelopment Agency Fund, \$675,234 for various home rehabilitation loans made by the City. The terms of repayment vary. Because the notes do not meet the City's availability criteria for revenue recognition, the City has deferred the revenue related to these loans. Revenue is recognized in the year of repayment. All loans are secured by trust deeds.

**Housing Assistance Loans**

At June 30, 2007, the City was owed, in its Community Development Block Grant -Special Revenue Fund, \$527,066 for various housing assistance loans made by the City. The terms of repayment vary. Because the notes do not meet the City's availability criteria for revenue recognition, the City has deferred the revenue related to these loans. Revenue is recognized in the year of repayment. All loans are secured by trust deeds.

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

**Note 4: Receivables (Continued)**

Harbor Area Business Loans

At June 30, 2007, the City's Harbor Tidelands - Enterprise Fund was owed \$236,626 for repairs made on behalf of a harbor area business subsequent to the storms of 1988. The terms of the 28-year, \$488,871 contract called for interest at 1.6% per annum. Principal and accrued interest are payable annually.

At June 30, 2007, the City's Harbor Tidelands - Enterprise Fund was owed \$66,345 for repairs made on behalf of a harbor area business subsequent to the storms of 1988. The terms of the 27-year, \$104,844 contract called for interest at 4.7% per annum. Principal and accrued interest are payable annually.

Senior Housing Program

On September 1, 2004, the Agency loaned \$2,500,000 to Redondo Beach HP Seniors, LP, a senior housing complex. The loan term is for 55 years and bears interest at 3% per annum. Repayments will be made from residual receipts to the housing complex. The loan is secured by a leasehold interest trust deed. At June 30, 2007, the loan receivable, including accrued interest of \$212,500 and a corresponding fund balance reservation, was \$2,712,500.

On June 21, 1995, the Agency loaned \$2,200,000 to Corporate Fund for Housing (a California non-profit public benefit corporation), the McCandless senior housing complex. The loan term is for 45 years and bears interest at 2% per annum. Any portion of the Agency loan remaining unpaid upon the 45<sup>th</sup> anniversary of completion shall be forgiven. Repayments will be made from residual receipts to the housing complex. The loan is secured by the Agency Deed of Trust. At June 30, 2007, the loan receivable, including accrued interest of \$590,132 and a corresponding fund balance reservation was \$2,790,132.

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

**Note 5: Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of June 30, 2007, was as follows:

**a. Due To/From Other Funds**

Funds	Due from other funds (Receivable):					Total
	Governmental Funds				Proprietary Fund	
	General Fund	Redevelopment Agency - Special Revenue	Public Financing Authority	Non-Major Governmental Funds	Harbor Tidelands	
Due to other funds (Payable):						
Governmental Funds:						
General Fund	\$	\$ 5,772	\$ 25,854	\$ 19,281	\$	\$ 50,907
Other Intergovernmental Grants	2,069,174					2,069,174
RDA Special Revenue	108,607					108,607
Public Financing Authority					410,224	410,224
RDA Debt Service		46,001	401,410			447,411
Non-Major Governmental Funds	1,181,467					1,181,467
Proprietary Funds:						
Internal Service Funds	72,390					72,390
<b>Total Due To/From Other Funds</b>	<b>\$ 3,431,638</b>	<b>\$ 51,773</b>	<b>\$ 427,264</b>	<b>\$ 19,281</b>	<b>\$ 410,224</b>	<b>\$ 4,340,180</b>

The General Fund has a due from other funds of \$2,069,174 from the Other Intergovernmental Grants Fund, \$1,181,467 from Non-Major Governmental Funds, and \$72,390 from Internal Service Funds for a temporary cash deficit.

The General Fund has a due from other funds of \$108,607 from Redevelopment Agency – Special Revenue Fund for a reimbursement to the City for expenditures made on Redevelopment Agency behalf. The RDA Special Revenue Fund also has a due from other funds of \$5,772 from the General Fund which pertains to the reimbursement of expenditures incurred on other fund behalf.

The Redevelopment Agency – Special Revenue Fund has a due from other funds of \$46,001 from the Redevelopment Agency Debt Service Fund for housing set-aside of tax increment receivable.

The Public Financing Authority has a due from other funds of \$401,410 which consists of debt service payments paid on the RDA's behalf. The Public Financing Authority also has a due from other funds of \$25,854 from the General Fund which relates to reimbursement of expenditures incurred on other fund behalf.

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

**Note 5: Interfund Receivables, Payables and Transfers (Continued)**

The due to Harbor Tidelands of \$410,224 from the Public Financing Authority was a result of Kincaid's Restaurant rental income in excess of PFA obligations passed through to Harbor Tidelands.

Non-Major Governmental Funds have a due from other funds of \$19,281 from the General Fund which pertains to the reimbursement of expenditures incurred on other fund behalf.

**b. Advances To/From Other Funds**

<u>Advances to other funds (Receivable):</u>	<u>Advances from other funds (Payable):</u>	
	<u>RDA Debt Service</u>	<u>Total</u>
Governmental Funds:		
Public Financing Authority	\$ 10,637,401	\$ 10,637,401
Proprietary Funds:		
Harbor Tidelands	6,285,195	6,285,195
Harbor Uplands	1,928,823	1,928,823
	<u>18,851,419</u>	<u>18,851,419</u>
Total Advances To/From Other Funds	<u>\$ 18,851,419</u>	<u>\$ 18,851,419</u>

During the current and previous fiscal years, the City of Redondo Beach has made loans to the Redevelopment Agency. These loans bear interest at rates up to 12% per annum depending upon when the loan was initiated. The City may demand payment of all or a portion of the principal balance at any time as funds become available; however, such demands are not anticipated with the next fiscal year. As of June 30, 2007, loans to and accrued unpaid interest owed on those loans were \$8,214,018.

During the current and previous fiscal year, the Public Financing Authority has made loans to the Redevelopment Agency for various bonds. The Redevelopment Agency's balances as of June 30, 2007, are \$1,226,837 for the 2000 Variable Rate Demand Bond, \$1,740,564 for the 2001 Pier Refinancing Bond, and \$7,670,000 for the 1996 Revenue Bond.

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

**Note 5: Interfund Receivables, Payables and Transfers (Continued)**

**c. Interfund Transfers**

	Transfers In:			Proprietary Funds Internal Service Funds	Total
	Governmental Funds				
	Capital Improvement Projects	Public Financing Authority	Non-Major Governmental Funds		
Transfers Out:					
<u>Governmental Funds:</u>					
General Fund	\$ 4,500,000	\$ -	\$ 967,327	\$ 1,242,346	\$ 6,709,673
Redevelopment Agency - Debt Service	-	555,097	-	-	555,097
Non-Major Governmental Funds	-	-	588,627	-	588,627
Total Interfund Transfers	<u>\$ 4,500,000</u>	<u>\$ 555,097</u>	<u>\$ 1,555,954</u>	<u>\$ 1,242,346</u>	<u>\$ 7,853,397</u>

The General Fund transferred out a total of \$6,709,673 to various funds consisting of \$91,434 in contributions to the South Bay Youth Project to fund youth project costs, \$662,565 for Street Landscaping and Lighting, \$4,500,000 to the Capital Improvement Projects Fund to fund capital improvement projects, \$274,246 to the Building Occupancy Internal Service Fund, \$968,100 to the Self-Insurance Internal Service Fund and \$213,328 to Workforce Investment Act to fund workforce related program costs.

The Redevelopment Agency – Debt Service Fund transferred \$555,097 to cover debt service payments.

Transfers were made within Non-major Governmental funds of \$588,627 consisted of Proposition A and Proposition C revenues to cover Transit Fund expenditures.

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

**Note 6: Capital Assets**

**a. Government-Wide Financial Statements**

A summary of changes in Capital Assets at June 30, 2007, is as follows:

Primary Government

	Beginning Balance	Adjustments *	Adjusted Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Governmental Activities:							
Capital assets, not being depreciated:							
Infrastructure- streets	\$ 54,054,036	\$	\$ 54,054,036	\$	\$	\$	\$ 54,054,036
Land	16,522,947		16,522,947				16,522,947
Construction in progress	245,773		245,773	(78,551)	79,589		246,811
Work in progress	1,003,491		1,003,491				1,003,491
Total capital assets not being depreciated	<u>71,826,247</u>		<u>71,826,247</u>	<u>(78,551)</u>	<u>79,589</u>		<u>71,827,285</u>
Capital assets, being depreciated:							
Buildings and improvements	36,118,505		36,118,505	78,551	517,757		36,714,813
Furniture and equipment	5,843,415	7,905	5,851,320		1,065,576	(8,400)	6,908,496
Automotive equipment	7,948,207		7,948,207		2,712,019	(263,993)	10,396,233
Leased equipment	61,776		61,776				61,776
Infrastructure	63,766,226		63,766,226		254,595	(21,916)	63,998,905
Total capital assets being depreciated	<u>113,738,129</u>	<u>7,905</u>	<u>113,746,034</u>	<u>78,551</u>	<u>4,549,947</u>	<u>(294,309)</u>	<u>118,080,223</u>
Less accumulated depreciation							
Buildings and improvements	10,088,789		10,088,789		909,135		10,997,924
Furniture and equipment	3,786,364		3,786,364		479,990	(8,400)	4,257,954
Automotive equipment	5,164,770		5,164,770		823,820	(205,777)	5,782,813
Leased equipment	49,400		49,400		12,355		61,755
Infrastructure	31,765,546		31,765,546		1,894,854	(8,108)	33,652,292
Total accumulated depreciation	<u>50,854,869</u>		<u>50,854,869</u>		<u>4,120,154</u>	<u>(222,285)</u>	<u>54,752,738</u>
Net depreciable assets	<u>62,883,260</u>	<u>7,905</u>	<u>62,891,165</u>	<u>78,551</u>	<u>429,793</u>	<u>(72,024)</u>	<u>63,327,485</u>
Governmental activities							
Total capital assets, net	<u>\$ 134,709,507</u>	<u>\$ 7,905</u>	<u>\$ 134,717,412</u>	<u>\$</u>	<u>\$ 509,382</u>	<u>\$ (72,024)</u>	<u>\$ 135,154,770</u>

\* Adjustments are to properly state beginning balances for furniture and equipment.

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

**Note 6: Capital Assets (Continued)**

	Beginning Balance	Adjustments*	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:						
Capital assets, not being depreciated						
Land	\$ 11,323,255	\$	\$ 11,323,255	\$	\$	\$ 11,323,255
Total Capital assets not being depreciated	<u>11,323,255</u>		<u>11,323,255</u>			<u>11,323,255</u>
Capital assets, being depreciated:						
Automotive equipment	376,774		376,774			376,774
Buildings and improvements	27,783,295		27,783,295	37,980		27,821,275
Equipment	648,679		648,679			648,679
Infrastructure	<u>20,229,224</u>	<u>626,338</u>	<u>20,855,562</u>	<u>238,457</u>	<u>(60,154)</u>	<u>21,033,865</u>
Total capital assets being depreciated	<u>49,037,972</u>	<u>626,338</u>	<u>49,664,310</u>	<u>276,437</u>	<u>(60,154)</u>	<u>49,880,593</u>
Less accumulated depreciation						
Automotive equipment	174,770		174,770	26,352		201,122
Building and improvements	10,976,405		10,976,405	604,999		11,581,404
Equipment	185,879		185,879	117,465		303,344
Infrastructure	<u>8,622,663</u>		<u>8,622,663</u>	<u>337,920</u>	<u>(49,210)</u>	<u>8,911,373</u>
Total accumulated depreciation	<u>19,959,717</u>		<u>19,959,717</u>	<u>1,086,736</u>	<u>(49,210)</u>	<u>20,997,243</u>
Net depreciable assets	<u>29,078,255</u>	<u>626,338</u>	<u>29,704,593</u>	<u>(810,299)</u>	<u>(10,944)</u>	<u>28,883,350</u>
Business-type activities						
Total capital assets, net	<u>\$ 40,401,510</u>	<u>\$ 626,338</u>	<u>\$ 41,027,848</u>	<u>\$ (810,299)</u>	<u>\$ (10,944)</u>	<u>\$ 40,206,605</u>

\* Adjustments are to properly state beginning balances for infrastructure related to the Wastewater Fund.

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

**Note 6: Capital Assets (Continued)**

Depreciation expense for governmental activities for the year ended June 30, 2007, departments/functions as follows:

Governmental Activities:	
General government	\$ 10,603
Public safety	161,062
Culture and leisure services	35,913
Public works	2,817,662
Housing and community development	221,226
Internal Service Funds:	
Vehicle Replacement	700,250
Building Occupancy	3,286
Information Technology	136,415
Printing and Graphics	19,325
Communications Equipment Replacement	14,412
	<u>                    </u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 4,120,154</u></u>

Depreciation expense for business-type activities for the year ended June 30, 2007, was \$1,086,736.

**Note 7: Compensated Absences Payable**

The following is a summary of compensated absences payable transactions for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Classification	
					Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Compensated absences payable	\$ 2,114,270	\$ 1,739,824	\$ 1,716,727	\$ 2,137,367	\$ 1,975,427	\$ 161,940
Business-Type Activities:						
Compensated absences payable	226,489	239,187	190,747	274,929	254,099	20,830
Total compensated absences payable	<u><u>\$ 2,340,759</u></u>	<u><u>\$ 1,979,011</u></u>	<u><u>\$ 1,907,474</u></u>	<u><u>\$ 2,412,296</u></u>	<u><u>\$ 2,229,526</u></u>	<u><u>\$ 182,770</u></u>

The long-term portion of compensated absences payable has been accrued for the Governmental Activities on the Government-Wide Financial Statement. Also, compensated absences are generally liquidated by the general fund. There is no fixed payment schedule to pay these liabilities.

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

**Note 8: Long-Term Debt**

The following is a summary of long-term debt transactions for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Classification	
					Amounts Due Within One Year	Amounts Due in More Than One Year
<b>Governmental Activities:</b>						
PFA 1996 Revenue Bonds	\$ 8,965,000	\$	\$ 200,000	\$ 8,765,000	\$ 215,000	\$ 8,550,000
PFA 2000 Tax Allocation Bonds	3,085,000		75,000	3,010,000	80,000	2,930,000
PFA 2001 Refunding Revenue Bonds	2,500,000		120,000	2,380,000	120,000	2,260,000
South Bay Bank Loan	1,582,270		35,209	1,547,061		1,547,061
County deferral loans	12,371,127	476,292	327,462	12,519,957		12,519,957
Capital Leases	12,961		12,042	919	919	
<b>Total governmental activities</b>	<b>\$ 28,516,358</b>	<b>\$ 476,292</b>	<b>\$ 769,713</b>	<b>\$ 28,222,937</b>	<b>\$ 415,919</b>	<b>\$ 27,807,018</b>
<b>Business-Type Activities:</b>						
Wastewater Revenue Bond 2004, Series A	\$ 9,970,000	\$	\$ 190,000	\$ 9,780,000	\$ 195,000	\$ 9,585,000
Unamortized bond discount	(66,476)		(2,374)	(64,102)	(2,374)	(61,728)
Boating and Waterways Construction Loan 88-21-84	1,321,731		69,815	1,251,916	72,957	1,178,959
Boating and Waterways Construction Loan 89-21-147	3,077,306		148,061	2,929,245	154,724	2,774,521
<b>Total business-type activities</b>	<b>\$ 14,302,561</b>	<b>\$</b>	<b>\$ 405,502</b>	<b>\$ 13,897,059</b>	<b>\$ 420,307</b>	<b>\$ 13,476,752</b>

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

**Note 8: Long-Term Debt (Continued)**

Public Financing Authority 1996 Revenue Bonds

The Authority issued revenue bonds dated July 1, 1996, totaling \$10,330,000. The purpose of the bonds was to provide funds to acquire 1996 Tax Allocation Bonds of the Agency, to finance certain redevelopment activities with respect to the South Bay Center Redevelopment Project Area and to provide new monies for certain public capital improvements within the City. Bonds in the amount of \$1,565,000 mature through July 1, 2006, and bear interest at the rate of 6.750% per annum. Bonds in the amount of \$2,950,000 mature through July 1, 2016, and bear interest at the rate of 7.00% per annum. Bonds in the amount of \$5,815,000 mature through July 1, 2026, and bear interest at the rate of 7.125% per annum. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a first lien on and pledge of the revenues. As of June 30, 2007, the balance outstanding was \$8,765,000.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2007, including interest are as follows:

	PFA 1996 Revenue Bonds	
	Principal	Interest
2007 - 2008	\$ 215,000	\$ 613,294
2008 - 2009	230,000	597,719
2009 - 2010	245,000	581,094
2010 - 2011	260,000	563,419
2011 - 2012	280,000	544,519
2012 - 2017	1,720,000	2,388,344
2017 - 2022	2,410,000	1,665,825
2022 - 2027	3,405,000	640,003
Total	<u>\$ 8,765,000</u>	<u>\$ 7,594,217</u>

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

**Note 8: Long-Term Debt (Continued)**

Public Financing Authority 2000 Tax Allocation Bonds

The Authority issued variable rate demand tax allocation bonds dated December 1, 2000, totaling \$4,735,000. The variable rate is dependent on the prevailing financial market. The purpose of the bonds was to provide funds to finance redevelopment projects of the Agency including, but not limited to, the acquisition, construction, expansion, improvement or rehabilitation of real or personal property and public improvements within or of benefit to the Agency's Aviation High School Redevelopment Project Area. The interest on the bonds is payable at an adjustable interest rate. The interest is payable on the first day of each month commencing January 1, 2001. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a pledge of tax revenues. Principal is due annually beginning on July 1, 2001, in amounts ranging from \$90,000 to \$250,000. The bonds mature on July 1, 2030. As of June 30, 2007, the balance outstanding was \$3,010,000.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2007, including interest, are as follows:

	PFA 2000 Variable Rate Demand Tax Allocation Bonds	
	Principal	Interest
2007 - 2008	\$ 80,000	\$ 115,102
2008 - 2009	85,000	111,905
2009 - 2010	90,000	108,514
2010 - 2011	90,000	105,026
2011 - 2012	90,000	101,538
2012 - 2017	515,000	450,430
2017 - 2022	625,000	340,560
2022 - 2027	740,000	208,696
2027 - 2032	695,000	55,129
Totals	<u>\$ 3,010,000</u>	<u>\$ 1,596,900</u>

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

**Note 8: Long-Term Debt (Continued)**

Public Financing Authority 2001 Refunding Revenue Bonds

The Authority issued refunding revenue bonds dated November 1, 2001, totaling \$2,965,000. The purpose of the bonds was to fund a loan by the Authority to the Agency pursuant to a loan agreement (Loan), dated November 1, 2001, by and between the Authority and the Agency. The proceeds of the Loan are used to provide funds to refinance certain redevelopment activities of the Agency within or of benefit to the Agency's Harbor Center Redevelopment Project Area (Project Area) and to refund the Agency's outstanding Tax Allocation and Revenue Bonds issued in 1993. As of June 30, 2007, the balance outstanding was \$2,380,000.

The interest on the bonds is payable at a fixed interest rate and then converts to an adjustable interest rate. Interest on the bonds during the initial interest period and from and after the conversion date is payable on each March 1 and September 1, commencing March 1, 2002, and after the initial interest period is payable on the first day of each month, commencing November 1, 2006. The bonds are payable from and secured by a pledge of tax revenues within the Project Area. Principal is due annually beginning on September 1, 2002, in amounts ranging from \$65,000 to \$195,000. The bonds mature on September 1, 2022. The bonds are subject to optional and mandatory early redemption provisions.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2007, including interest, are as follows:

	PFA 2001 Refunding Revenue Bonds	
	Principal	Interest
2007 - 2008	\$ 120,000	\$ 78,300
2008 - 2009	125,000	74,166
2009 - 2010	125,000	69,947
2010 - 2011	135,000	65,559
2011 - 2012	135,000	61,003
2012 - 2017	770,000	230,681
2017 - 2022	905,000	89,859
2022 - 2027	65,000	1,097
Totals	<u>\$ 2,380,000</u>	<u>\$ 670,612</u>

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

**Note 8: Long-Term Debt (Continued)**

South Bay Bank Loan

On April 21, 1999, the Authority entered into a \$1,750,000 loan agreement with South Bay Bank, which was amortized at an interest rate of 8.750%. In January 2003, the Authority refinanced the loan at a rate of 7%. Proceeds of the original loan were used to purchase the building on Redondo Beach Municipal Pier Deck, leased by Kincaid's Restaurant. As of June 30, 2007, the balance outstanding was \$1,547,061. There is no set amortization schedule for this loan.

County Deferral Loans

	Balance <u>July 1, 2006</u>	Additions	Deletions	Balance <u>June 30, 2007</u>
1983 Tax Increment Deferral	\$ 7,642,990	\$	\$ 327,462	\$ 7,315,528
1984 Tax Increment Deferral	<u>4,728,137</u>	<u>476,292</u>		<u>5,204,429</u>
Total	<u>\$ 12,371,127</u>	<u>\$ 476,292</u>	<u>\$ 327,462</u>	<u>\$ 12,519,957</u>

1983 Tax Increment Deferral

On November 15, 1983, the Agency and the County of Los Angeles (the County) entered into an agreement for reimbursement of tax increment funds. It was recognized that the South Bay Center Redevelopment Project Area needed to utilize a substantial portion of the annual tax increment in the early years to finance its redevelopment activities. Therefore, the County taxing entities agreed to defer receipt of tax increment reimbursement from the Agency. This deferral is debt of the Agency to be repaid only from the Agency's share of future tax increment. There is no fixed payment schedule to repay this loan. The balance outstanding at June 30, 2007, was \$7,315,528.

1984 Tax Increment Deferral

On February 14, 1984, the Agency and the County entered into an agreement for reimbursement of tax increment funds. It was recognized that the Aviation High School Redevelopment Project Area needed to utilize a substantial portion of the annual tax increment in the early years to finance its redevelopment activities. Therefore, the County taxing entities agreed to defer receipt of tax increment reimbursement from the Agency. This deferral is debt of the Agency to be repaid only from the Agency's share of future tax increment. There is no fixed payment schedule to repay this loan. The balance outstanding at June 30, 2007, was \$5,204,429.

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

**Note 8: Long-Term Debt (Continued)**

Capital Leases

The City has entered into various lease purchase agreements for equipment. These leases have been classified as capital leases in the amount of \$61,776. The related assets have been capitalized in the Government-Wide Financial Statements at the initial present value of the lease payments, with an imputed interest rate between 7.09% and 8.67% annually. The balance outstanding at June 30, 2007, was \$919.

The following is a schedule of future minimum lease payments under the capital lease, together with present value of the net minimum lease payments, as of June 30, 2007:

	Capital Lease	
	<u>Principal</u>	<u>Interest</u>
2007 - 2008	<u>\$ 919</u>	<u>\$ 10</u>
Totals	<u><u>\$ 919</u></u>	<u><u>\$ 10</u></u>

Wastewater Revenue Bonds, 2004, Series A

The City issued revenue bonds dated May 12, 2004, totaling \$10,335,000. The purpose of the bonds was to finance certain improvements and related facilities that constitute part of the Wastewater Enterprise. The serial bonds in the amount of \$5,230,000 mature through May 1, 2024, and bear a variable interest rate ranging from 2.50% to 5.00% per annum. Term bonds in the amount of \$5,105,000 mature through May 1, 2034, and bear interest at the rate of 5.00%. The serial bonds maturing on or after May 1, 2015, are subject to optional redemption provisions. The term bonds are subject to optional and mandatory redemption provisions. The bonds are payable solely from and secured by a pledge of and lien upon the net revenues of the Wastewater Enterprise. As of June 30, 2007, the balance outstanding was \$9,715,898, net of unamortized bond discount.

City of Redondo Beach  
Notes to Financial Statements (Continued)

Note 8: Long-Term Debt (Continued)

	Wastewater Water Revenue Bonds, 2004, Series A	
	Principal	Interest
2007 - 2008	\$ 195,000	\$ 466,945
2008 - 2009	200,000	461,095
2009 - 2010	210,000	453,095
2010 - 2011	215,000	444,695
2011 - 2012	225,000	436,095
2012 - 2017	1,275,000	2,031,093
2017 - 2022	1,600,000	1,707,850
2022 - 2027	2,030,000	1,271,500
2027 - 2032	2,600,000	710,000
2032 - 2037	1,230,000	93,000
Totals	<u>\$ 9,780,000</u>	<u>\$ 8,075,368</u>

Boating and Waterways Construction Loan 88-21-84

On July 25, 1988, the City entered into a \$2,000,000 loan agreement with the California Department of Boating and Waterways (Contract No. 88-21-84). Proceeds of the loan were used to finance harbor dredging, storm recovery repairs and hazard-mitigation projects. The loan bears interest at 4.5%. As of June 30, 2007, the balance outstanding was \$1,251,916.

At June 30, 2007, the annual requirements to repay the outstanding indebtedness were as follows:

	Boating and Waterways Construction Loan 88-21-84	
	Principal	Interest
2007 - 2008	\$ 72,957	\$ 56,336
2008 - 2009	76,240	53,053
2009 - 2010	79,671	49,622
2010 - 2011	83,256	46,037
2011 - 2012	87,002	42,291
2012 - 2017	497,383	149,082
2017 - 2022	355,407	32,455
Total	<u>\$ 1,251,916</u>	<u>\$ 428,876</u>

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

**Note 8: Long-Term Debt (Continued)**

Boating and Waterways Construction Loan 89-21-147

In 1989, the City entered into a \$4,500,000 construction loan agreement with the California Department of Boating and Waterways (Contract No. 89-21-147) at an interest rate of 4.5%. Proceeds of the loan were used to finance the City's cost-sharing obligations in connection with the Federal breakwater improvement program, storm repairs and hazard-mitigation projects. As of June 30, 2007, the balance outstanding was \$2,929,245.

At June 30, 2007, the annual requirements to repay the outstanding indebtedness were as follows:

	Boating and Waterways Construction Loan 89-21-147	
	Principal	Interest
2007 - 2008	\$ 154,724	\$ 131,816
2008 - 2009	161,687	124,853
2009 - 2010	168,962	11,578
2010 - 2011	176,566	109,974
2011 - 2012	184,511	102,029
2012 - 2017	1,054,831	377,869
2017 - 2022	<u>1,027,964</u>	<u>118,189</u>
Total	<u>\$ 2,929,245</u>	<u>\$ 976,308</u>

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

**Note 9: Non-City Obligations**

The following bond issues are not reported in the City's financial statements because these are special obligations payable solely from and secured by specific revenue sources described in the resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged for payment of these bonds.

**a. City of Redondo Beach Limited Obligation Improvement Bonds Assessment District No. 92-1 (Manhattan Beach Boulevard):**

On March 31, 1993, the City issued \$1,147,000 of its Assessment District No. 92-1 Limited Obligation Bonds. The bonds are issued pursuant to the Improvement Bond Act of 1915. The bonds, dated March 2, 1993, are \$5,000 each. They mature on September 2, of each year starting in 1994. The bonds are issued to finance certain public improvements within the Assessment District. Property owners within the Assessment District are assessed an annual tax sufficient to meet annual bond debt service requirements. The outstanding balance at June 30, 2007, was \$120,000.

**b. Redevelopment Agency of the City of Redondo Beach Residential Mortgage Revenue Refunding Bonds**

	<u>Original Amount</u>	<u>Outstanding June 30, 2007</u>
1993 Series B	<u>\$ 5,315,000</u>	<u>\$ 415,000</u>

**c. Multi-Family Housing Revenue Bonds/Notes Heritage Pointe Project**

	<u>Original Amount</u>	<u>Outstanding June 30, 2007</u>
Series 2004A	<u>\$ 11,390,000</u>	<u>\$ 11,090,000</u>

**d. Multi-Family Housing Revenue Refunding Bonds McCandless Senior Housing Project**

	<u>Original Amount</u>	<u>Outstanding June 30, 2007</u>
Series 2000A	<u>\$ 8,740,000</u>	<u>\$ 6,890,000</u>

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

**Note 10: Operating Leases**

**a. Computer Equipment Operating Leases**

The City entered into various non-cancelable operating lease agreements with Dell Marketing, L.P. In fiscal year 2006-2007, the City had leased equipment that included 322 Dell computers (including 1 Server), 105 Dell Optiplex, and 62 printers. The terms of the leases range from ending September 1, 2007 to ending September 1, 2010, as follows:

<u>Year Ending June 30,</u>	<u>Minimum Rental Payments</u>
2008	\$ 350,682
2009	191,929
2010	<u>142,840</u>
Total	<u>\$ 685,451</u>

**b. Harbor Enterprise Operating Leases**

The Harbor Uplands Enterprise Fund of the City of Redondo Beach was created by ordinance of the City Council on July 11, 1960. Its purpose is to provide small boat harbor facilities to the general public.

The Harbor Enterprise Funds operate as landlord, assigning or leasing facilities and land area. Principal sources of income are from rental of land and facilities.

A major portion of the operating revenue of the Harbor Enterprise Funds arises from long-term leases of land, pier space, waterways and other facilities that require the lessees to make substantial investments in leasehold improvements. These leases are accounted for as operating leases. The total cost of the assets leased was \$10,406,895, less accumulated depreciation of \$704,490 for those assets giving a carrying amount of \$9,702,405 at June 30, 2007.

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

**Note 10: Operating Lease (Continued)**

The following is a schedule, by year, of minimum future lease rentals on non-cancelable operating leases as of June 30, 2007:

Year Ending June 30,	Minimum Future Lease Rentals
2008	\$ 2,924,021
2009	2,879,981
2010	2,805,641
2011	2,790,450
2012	2,790,450
2013 - 2017	13,774,880
2018 - 2022	12,529,538
2023 - 2027	10,384,892
2028 - 2032	7,131,152
2033 - 2037	7,181,095
2038 - 2042	7,129,095
2043 - 2047	4,537,095
2048 - 2052	4,018,695
2053 - 2057	4,018,695
2058 - 2062	3,137,700
Total	<u>\$ 88,033,380</u>

The above accounts do not include lease rentals based on a percentage of a lessee's gross revenues that may be received under the leases.

**Note 11: Risk Management**

The City is exposed to risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters; and currently reports all of its risk management activities in its Self-Insurance Program Internal Service Fund.

The City has adopted a self-insurance workers' compensation program, which is administered by a third-party agent, Colen & Lee. The self-insurance coverage for each claim is limited to \$250,000. Excess coverage of up to \$2,000,000 for each claim is provided by a private insurance company. As of June 30, 2007, the estimated claims payable for workers' compensation were \$14,297,984, which included claims incurred but not reported (IBNR) of \$5,058,234. The current year's portion of the claims was \$1,051,548.

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

**Note 11: Risk Management (Continued)**

For general liability claims, the City is also self-insured up to \$500,000 for each occurrence. The self-insurance program is administered by a third-party agent, Colen & Lee. Each claim in excess of the self-insured retention of up to \$10,000,000 is covered by the Independent Cities Risk Management Authority (ICRMA), an insurance pool, in which a consortium of cities has agreed to share risks and losses.

Effective July 17, 1990, the City became a member of the Independent Cities Risk Management Authority (ICRMA), a public entity risk pool currently operating as a common risk management and insurance program for 29 California cities. The City pays an annual premium to the pool for its excess general liability insurance coverage. The agreement for formation of the ICRMA provides that the pool will be self-sustaining through member premiums. The City continues to carry insurance from commercial companies for all other risks of loss, including coverage for property, earthquake and flood, automobile, physical damage and special events.

As of June 30, 2007, the estimated claims payable for general liability were \$2,460,789, which included IBNR of \$906,150. The current year's portion was \$191,756. Governmental activities claims and judgments are generally liquidated by the general fund.

The estimated claims payable for workers' compensation and general liability is based on estimates provided by the third-party administrator, the City Attorney, the Risk Management staff and ICRMA's actuary.

Changes in the reported liability resulted from the following:

Year Ended June 30,	Liability on July 1	Additions	Deletions	Liability on June 30	Amounts Due Within One Year	Amounts Due in More Than One Year
2005	\$ 12,356,893	\$ 2,868,369	\$ (397,657)	\$ 14,827,605	\$ 1,145,381	\$ 11,211,512
2006	14,827,605	3,737,861	(2,401,906)	16,163,560	1,122,622	13,529,673
2007	16,163,560	3,603,007	(3,007,794)	16,758,773	1,243,304	15,515,469

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

**Note 11: Risk Management (Continued)**

Condensed Financial Information of the ICRMA (latest available information)

Condensed audited balance sheet of ICRMA as of June 30, 2006:

	<u>Total</u>
Assets	<u>\$ 48,096,860</u>
Liabilities of member cities	\$ 29,211,352
Net assets	<u>18,885,508</u>
Total liabilities and net assets	<u>\$ 48,096,860</u>

Condensed audited statement of revenues, expenses and changes in retained earnings of ICRMA for the year ended June 30, 2006:

	<u>Total</u>
Revenues	\$ 19,920,010
Cost and expenses	<u>13,895,190</u>
Net income	6,024,820
Net assets - July 1, 2005	<u>12,860,688</u>
Net assets - June 30, 2006	<u>\$ 18,885,508</u>

**Note 12: Employee Retirement Plans**

**a. Pension Plan**

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

City of Redondo Beach  
Notes to Financial Statements (Continued)

**Note 12: Employee Retirement Plans (Continued)**

Funding Policy - Active plan members are required by state statute to contribute a percentage of their annual covered salary. For fiscal year 2006-2007, the required percentages were 7% for miscellaneous employees and 9% for safety employees. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$2,715,783 for the year ended June 30, 2007. The City employer was required to contribute for fiscal year 2006-2007, at an actuarially determined rate of 11.577% and 31.003% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost - For 2006-2007, the City's required annual pension cost and actual contribution were \$7,366,175 for PERS. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: a) 7.75% investment rate of return (net of administrative expenses), b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service and type of employment, and c) 3.25% per year cost-of-living adjustments. Both a) and b) included an inflation component of 3%. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS' unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2007, was 22 years for miscellaneous and 32 years for safety employees for prior and current service unfunded liability.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 5,254,286	100%	\$ -
6/30/06	3,906,140	100%	1,630,656
6/30/07	7,366,175	100%	

City of Redondo Beach  
Notes to Financial Statements (Continued)

Note 12: Employee Retirement Plans (Continued)

Schedule of Funding Progress for PERS  
Most Current Available

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Liability (B-A) (C)	Funded Ratio (A/B) (D)	Covered Payroll (E)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E) (F)
Miscellaneous Employee Group						
6/30/2004	88,520,611	96,349,824	7,829,213	91.9%	17,291,504	45.3%
6/30/2005	93,409,153	103,005,616	9,596,463	90.7%	17,958,187	53.4%
6/30/2006	99,965,770	108,578,292	8,612,522	92.1%	18,128,139	47.5%
Safety Employee Group						
6/30/2004	152,283,951	182,393,308	30,109,357	83.5%	13,532,735	222.5%
6/30/2005	162,566,983	194,418,709	31,851,726	83.6%	13,213,747	241.0%
6/30/2006	173,773,778	206,971,506	33,197,728	84.0%	13,871,365	239.3%

b. Employee Health Insurance

In addition to the pension benefits described above, the City provides certain health insurance benefits, in accordance with memorandums of understanding, to retired employees. The City provides medical insurance for all employees who retire with a minimum of 20 years of full-time public agency service. The City shall pay the single retiree medical premium rate for qualified retirees for a medical insurance plan in which the retiree is enrolled from among those medical plans provided by the City. These contributions of the City for such medical premiums shall cease on the date the retiree becomes eligible to enroll in the Federal Medicare program and/or any Medicare supplemental plans. The City recognizes the cost of providing those benefits by recording the insurance premiums as expenditures. During the year ended June 30, 2007, the City paid \$380,471 in health insurance premiums for 92 retirees.

Note 13: Commitments and Contingencies

a. Lawsuits

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

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

**Note 13: Commitments and Contingencies (Continued)**

**b. Federal and State Grant Programs**

The City participates in federal and state grant programs. These programs are audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable state requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures that may be disallowed, if any, by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**c. Utility Users Tax Litigation**

The City has recorded in its Agency Fund restricted cash and investments of \$57,258,561 which pertains to a court ordered payment relating to Utility Users Tax for previous years from Williams Power Company. This amount has also been recorded as an accrued liability in the Agency Fund as it is currently in litigation.

**Note 14: Prior Period Adjustments**

**a. Governmental Funds:**

General Fund:	
To recognize income and adjust donations for prior period	\$ 11,718
Redevelopment Agency - Special Revenue Fund:	
To set-up loan receivable pertaining to prior period	<u>2,735,424</u>
Total Governmental Funds	<u><u>\$ 2,747,142</u></u>

**b. Proprietary Fund:**

Wastewater Fund:	
To adjust prior years infrastructure capital assets	<u>\$ 626,338</u>
Total Proprietary Funds	<u><u>\$ 626,338</u></u>

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

**Note 14: Prior Period Adjustments (Continued)**

**c. Net Assets have been restated as follows:**

Governmental Activities:	
To recognize income and adjust donations for prior period	\$ 11,718
To set-up loan receivable pertaining to prior period	2,735,424
To adjust prior period capital assets	<u>7,905</u>
	<u>\$ 2,755,047</u>
Business-Type Activities:	
To adjust prior period infrastructure capital assets	<u>\$ 626,338</u>

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