

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, 2008, 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, 2008, 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 December 8, 2008, 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

December 8, 2008

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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, 2008. 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, 2008 by \$216.8 million - assets for governmental activities exceeded liabilities by \$154.6 million and assets for business-type activities exceeded liabilities by \$62.2 million.

Changes in Net Assets - The City's net assets increased \$2.8 million in fiscal year 2007-2008. Net assets of governmental activities increased \$1.3 million, while net assets of business-type activities increased \$1.3 million.

- ♦ *Fund Highlights*

Governmental Funds - At the close of fiscal year 2007-2008, the City's total governmental funds reported a fund balance of \$43.3 million, an increase of \$4.8 million from the prior year. Highlighted below are this year's six major funds included in this grouping.

General Fund - The fund balance of the General fund on June 30, 2008 was \$12.6 million, an increase of \$1.5 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, 2008 was (\$1.8) million, an increase of \$100,000 from the prior year.

Special Revenue - Redevelopment Agency Fund - The fund balance of the Special Revenue - Redevelopment Agency fund on June 30, 2008 was \$11.5 million, an increase of \$300,000 from the prior year.

Capital Projects – Capital Improvement Projects Fund - The fund balance of the Capital Projects – Capital Improvement Projects Fund on June 30, 2008, was \$14.1 million, an increase of \$3.5 million from the prior year.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority fund on June 30, 2008 was \$12.6 million, remaining relatively flat from fiscal year 2006-2007.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency fund on June 30, 2008 was a negative \$16.6 million, increasing the negative fund balance by \$700,000 when compared to 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 26 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 six major funds are: General Fund, Special Revenue – Other Intergovernmental Grants Fund, Special Revenue – Redevelopment Agency Fund, Capital Projects – Capital Improvement Projects Fund, Debt Service - Public Financing Authority Fund, and Debt Service - Redevelopment Agency Fund. 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	
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007
Current and Other Assets	\$ 71,601,562	\$ 71,149,453	\$ 36,746,638	\$ 36,077,471	\$ 108,348,200	\$ 107,226,924
Capital Assets, net depre	134,588,982	135,154,770	40,212,474	40,206,605	174,801,456	175,361,375
Total assets	<u>206,190,544</u>	<u>206,304,223</u>	<u>76,959,112</u>	<u>76,284,076</u>	<u>283,149,656</u>	<u>282,588,299</u>
Long-Term Liabilities						
Outstanding	46,829,653	47,119,077	13,582,592	14,171,988	60,412,245	61,291,065
Other Liabilities	4,737,830	5,928,315	1,181,665	1,202,356	5,919,495	7,130,671
Total Liabilities	<u>51,567,483</u>	<u>53,047,392</u>	<u>14,764,257</u>	<u>15,374,344</u>	<u>66,331,740</u>	<u>68,421,736</u>
Investments in Capital						
Net of Related Debt	134,543,764	135,153,851	36,923,208	38,139,435	171,466,972	173,293,286
Restricted	34,884,364	34,467,200	-	-	34,884,364	34,467,200
Unrestricted	(14,805,067)	(16,364,220)	25,271,647	22,770,297	10,466,580	6,406,077
Total Net Assets	<u>\$ 154,623,061</u>	<u>\$ 153,256,831</u>	<u>\$ 62,194,855</u>	<u>\$ 60,909,732</u>	<u>\$ 216,817,916</u>	<u>\$ 214,166,563</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 \$216.8 million at the close of fiscal year ending June 30, 2008.

The largest portion of the City's total net assets (87.0%) 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 (13.0%) 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 2007-2008 total net assets increased by \$2.8 million, or 1.3%, from the prior year. The governmental activities net assets increased \$1.5 million, or 1.0%, while the business-type activities net assets increased \$1.3 million, or 2.1%.

The increase in net assets of governmental activities of \$1.3 million was due to a decrease in total assets of \$113,679 and a decrease in liabilities of \$1.6 million. Within total assets, the increase in current and other assets was attributable to increases in revenues. Significant increases to revenues were mainly due to housing and community development related operating grants and contributions. Additionally, net assets were enhanced by property taxes and claims settlements. The offset to these revenues were increases in public safety, which were primarily driven by increased personnel costs; increases in housing and community development expenditures due to the housing Section 8 voucher program; street maintenance projects; and transit related contracts and professional services. The decrease in total liabilities was attributable to other liabilities, primarily accounts payable, due to reduced spending and the timing of payments to vendors. Outstanding liabilities decreased mainly due to the reduction in compensated absences payable to employees. Business-type activities showed a 2.1% increase in net assets primarily due to charges for services for fiscal year 2007-2008.

City of Redondo Beach's Changes in Net Assets
Fiscal Year Ended June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Total	
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007
Revenues:						
Program revenues:						
Charges for services	\$ 16,443,203	\$ 16,329,116	\$ 15,070,853	\$ 14,494,563	\$ 31,514,056	\$ 30,823,679
Operating grants and contributions	14,480,137	12,366,720	70,150	68,841	14,550,287	12,435,561
Capital grants and contributions	4,863,545	4,916,505	-	-	4,863,545	4,916,505
Total program revenues	<u>35,786,885</u>	<u>33,612,341</u>	<u>15,141,003</u>	<u>14,563,404</u>	<u>50,927,888</u>	<u>48,175,745</u>
General revenues:						
Property taxes	27,311,112	27,136,137	-	-	27,311,112	27,136,137
Sales taxes	9,635,626	10,205,436	-	-	9,635,626	10,205,436
Utilities users taxes	8,018,564	7,878,429	-	-	8,018,564	7,878,429
Motor vehicle license	293,685	429,612	-	-	293,685	429,612
Transient occupancy taxes	3,933,009	3,738,839	-	-	3,933,009	3,738,839
Franchise taxes	1,807,308	1,685,711	-	-	1,807,308	1,685,711
Business license taxes	1,385,726	1,289,608	-	-	1,385,726	1,289,608
Use of money and property ¹	4,264,527	4,687,909	1,329,922	1,439,428	5,594,449	6,127,337
Other revenues	443,706	1,626,971	141,621	138,877	585,327	1,765,848
Gain on sale of capital asset	34,735	-	-	-	34,735	-
Transfers	(146,710)	-	146,710	-	-	-
Total general revenues	<u>56,981,288</u>	<u>58,678,652</u>	<u>1,618,253</u>	<u>1,578,305</u>	<u>58,599,541</u>	<u>60,256,957</u>
Total revenue	<u>92,768,173</u>	<u>92,290,993</u>	<u>16,759,256</u>	<u>16,141,709</u>	<u>109,527,429</u>	<u>108,432,702</u>
Expenses:						
General government	10,234,450	10,019,467	-	-	10,234,450	10,019,467
Public safety	40,835,961	38,269,521	-	-	40,835,961	38,269,521
Public works	13,601,505	14,986,259	-	-	13,601,505	14,986,259
Cultural and leisure services	10,143,340	9,499,827	-	-	10,143,340	9,499,827
Housing and community development	14,063,015	12,194,088	-	-	14,063,015	12,194,088
Interest on long-term debt	2,419,799	1,696,368	-	-	2,419,799	1,696,368
Harbor Tidelands	-	-	5,075,571	4,902,841	5,075,571	4,902,841
Harbor Uplands	-	-	5,416,019	4,503,160	5,416,019	4,503,160
Solid Waste	-	-	3,129,337	3,493,852	3,129,337	3,493,852
Wastewater	-	-	1,853,206	2,122,793	1,853,206	2,122,793
Total expenses	<u>91,298,070</u>	<u>86,665,530</u>	<u>15,474,133</u>	<u>15,022,646</u>	<u>106,772,203</u>	<u>101,688,176</u>
Change in net assets	<u>1,470,103</u>	<u>5,625,463</u>	<u>1,285,123</u>	<u>1,119,063</u>	<u>2,755,226</u>	<u>6,744,526</u>
Net assets, beginning of year	153,294,181	144,913,667	60,909,732	59,164,331	214,203,913	204,077,998
Restatement of net assets	(141,223)	2,755,047	-	626,338	(141,223)	3,381,385
Net assets, end of year	<u>\$ 154,623,061</u>	<u>\$ 153,294,177</u>	<u>\$ 62,194,855</u>	<u>\$ 60,909,732</u>	<u>\$ 216,817,916</u>	<u>\$ 214,203,909</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 2007-2008 by \$477,180, or 1.0%. The increase in revenues was mainly due to operating grants and contributions. The major increase in operating grants and contributions resulted from numerous grants the City received for housing programs, transit activities, and street rehabilitation projects.

The City also had an increase in expenses of \$4.6 million, or 5.3%, when compared to fiscal year 2006-2007. The increase in public safety expenses primarily 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

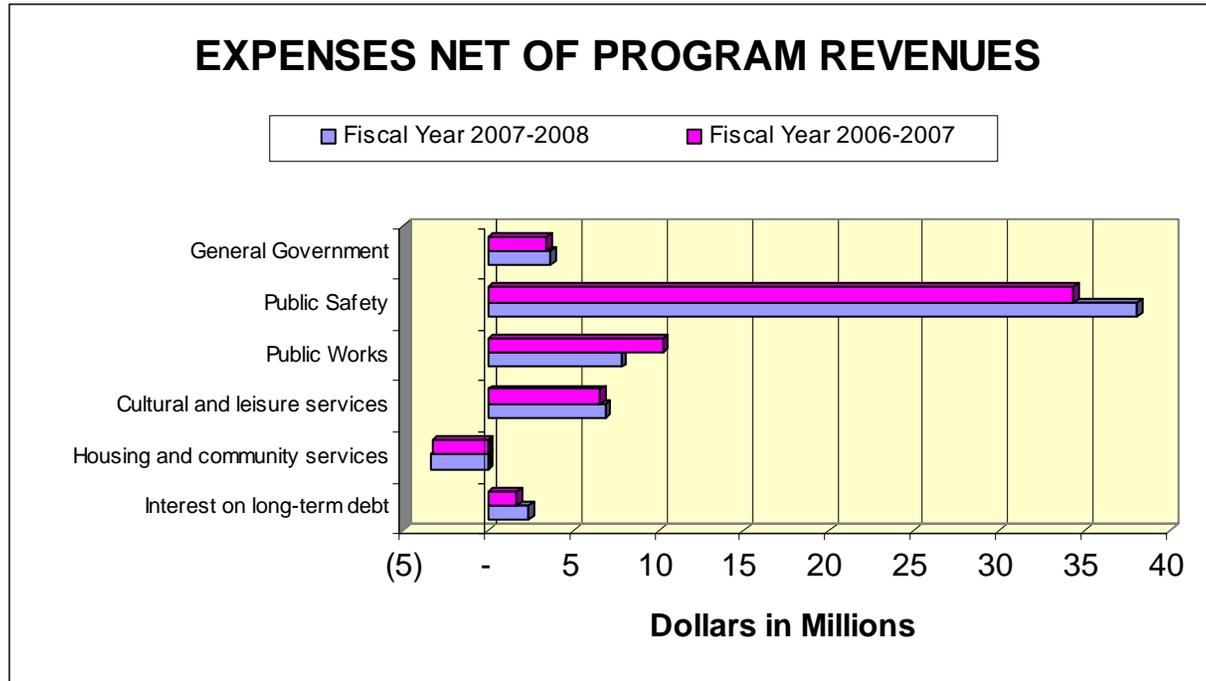
As reflected in the Changes in Net Assets schedule above, the total governmental activity expenses were \$91.3 million in fiscal year 2007-2008; whereas, total revenues from governmental activities were \$92.8 million, of which 38.6% were derived from program revenues.

On the following chart, the governmental activity expenses net of program revenues, increased \$2.4 million, or 4.6%, in fiscal year 2007-2008. Net expenses related to housing and community development remained relatively flat versus prior year. Substantial decreases in net expenses were experienced by public works due to an increase in revenue related to capital grants and contributions. General Government, Public safety, and Cultural and leisure services expenses increased primarily due to cost of living related personnel expenses and overhead increases resulting from the implementation of recommendations from a cost allocation plan analysis. Interest on long-term debt increased due to a debt service payment made on the City’s 1996 Tax Allocation Bonds in June 2008 that was not due until July 2008. Therefore, the interest expense which could have been recognized in fiscal year 2008-2009 was recognized in fiscal year 2007-2008.

Governmental Activities:	Impact to Net Assets		Percent Increase (Decrease)
	2007-2008	2006-2007	
<i>Expenses Net of Program Revenues*</i>			
General government	\$ (3,671,132)	\$ (3,441,892)	6.7%
Public safety	(38,073,767)	(34,346,523)	10.9%
Public works	(7,816,112)	(10,279,390)	(24.0%)
Cultural and leisure services	(6,878,230)	(6,582,124)	4.5%
Housing and community development	3,347,855	3,293,108	1.7%
Interest on long-term debt	(2,419,799)	(1,696,368)	42.6%
Total Governmental Activity Expenses			
Net of Program Revenues	\$ (55,511,185)	\$ (53,053,189)	4.6%

*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.

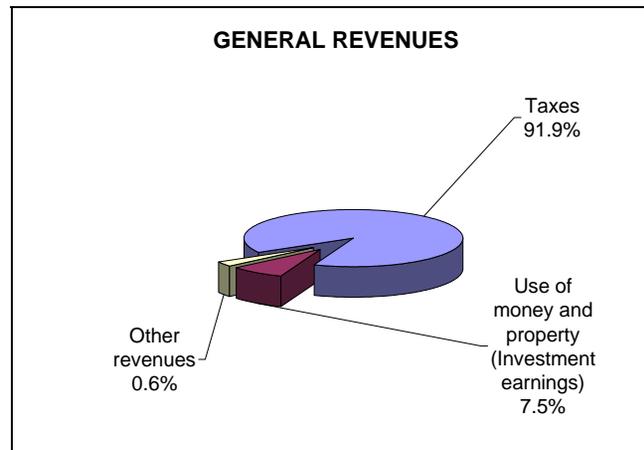


General Revenues Related to Governmental Activities

<u>General Revenues</u>	<u>2007-2008</u>	<u>2006-2007</u>
Taxes	\$ 52,385,030	\$ 52,363,772
Use of money and property ¹	4,264,527	4,687,909
Other revenues	331,731	1,626,971
Total General Revenues	<u>\$ 56,981,288</u>	<u>\$ 58,678,652</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, use of money and property, and other revenues. Total general revenues from governmental activities were \$57.0 million in fiscal year 2007-2008. The largest percentage of these revenues for fiscal year 2007-2008 (91.9%) was derived from taxes, increasing 3.0%. This includes property taxes, transient occupancy taxes, sales taxes, franchise taxes, business license taxes, utility users' taxes, and motor vehicle in lieu license fees. Although the remaining items makeup only 8.1% of General Revenues, these items in total reflected a decrease of 25.3%. The largest decrease was experienced in other revenues, resulting from more specific classification of revenues that were deemed other revenue in prior years. The reclassified revenues are now being appropriately classified as primary government program revenues in fiscal year 2007-2008.



Business-Type Activities

The City has four business-type activities: Harbor Tidelands, Harbor Uplands, Wastewater, and Solid Waste. These business-type activities increased the City's total assets by \$675,036 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 2007-2008, the assets of the Harbor Tidelands increased \$1.9 million 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 2007-2008, the assets of Harbor Uplands decreased by \$729,234, from prior year. The major cause of the decrease was related to depreciation of capital assets and a reduction in accounts receivable.

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 \$260,514 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 decreased \$243,642 from prior year.

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

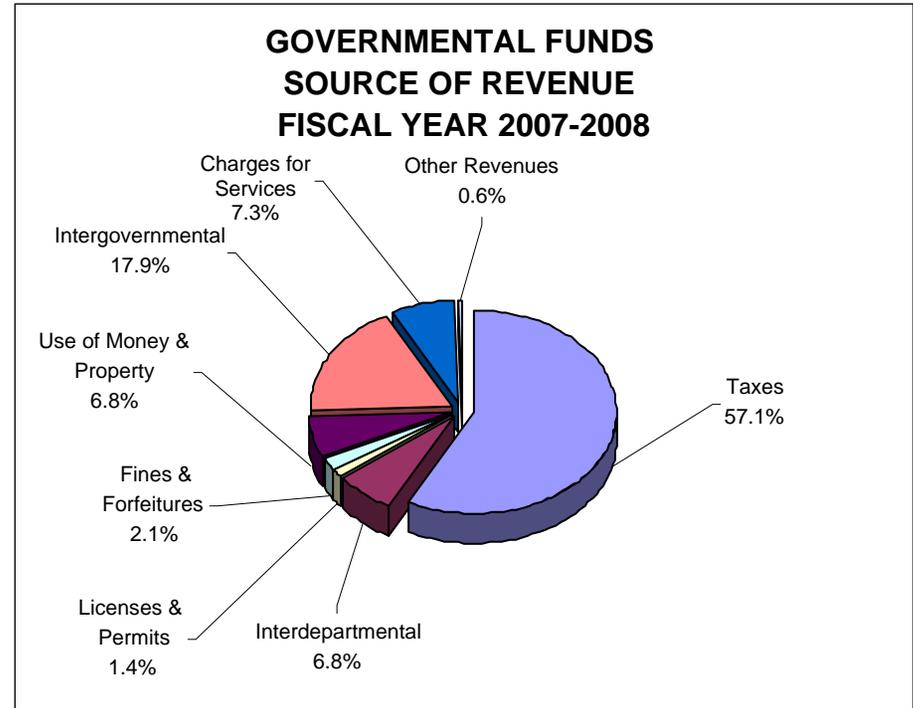
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund financial statements which follow are not reflected on a full accrual basis. Therefore, amounts reflected in the fund financial statements versus the Government-Wide statements may differ due to this 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, 2008, 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.

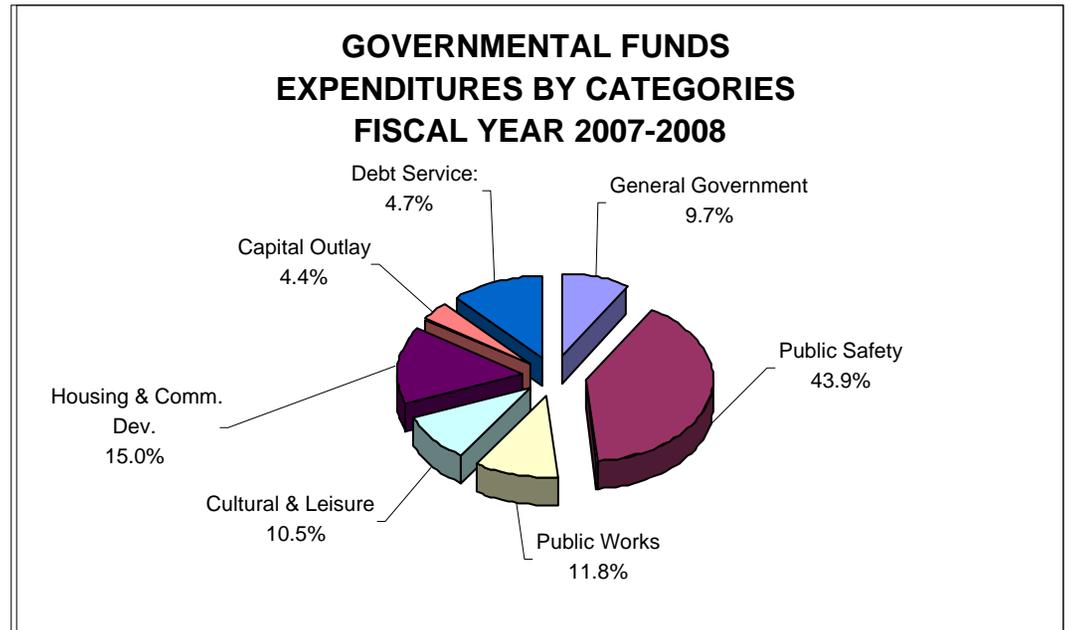
Source of Revenue	Amount FY 07-08	Percent of Total	Increase (Decrease) FY 06-07	Percent Increase (Decrease)
Taxes	\$ 53,052,490	57.1%	\$ 482,897	0.9%
Interdepartmental	6,314,750	6.8%	(3)	0.0%
Licenses & permits	1,306,025	1.4%	(354,314)	(21.3%)
Fines & forfeitures	1,984,683	2.1%	867,487	77.6%
Use of money & property	6,279,652	6.8%	1,051,031	20.1%
Intergovernmental	16,660,368	17.9%	888,647	5.6%
Charges for services	6,814,267	7.3%	(812,930)	(10.7%)
Other revenues	559,093	0.6%	(228,629)	(29.0%)
Total	\$ 92,971,328	100.0%	\$ 1,894,186	2.1%



Total governmental fund revenues increased \$3.5 million, or 3.9%, from fiscal year 2006-2007. The largest source of revenue was taxes, which increased \$482,897, or 0.9%, which was primarily due to property tax as a result of relatively low mortgage rates and a stable level of real estate exchange, as mentioned earlier. Interdepartmental remained relatively flat from fiscal year 2006-2007. Licenses and permits revenue decreased \$354,314 due to a decrease in building and parking permits. Fines and forfeitures revenue increased substantially due to parking citations. Use of money and property revenue increased \$1.1 million, or 20.1% primarily due to the receipt of three payments from the Redevelopment Agency to the Public Financing Authority. Charges for services decreased \$812,930 due to a reduction in planning fees, plan checks, franchise applications, franchise transfers, and subregional incentives, e.g., Metro EZ passes. Other revenues decreased \$228,629 due primarily to more specific classification of revenues that were deemed other revenue in prior years. The reclassified revenues are now being appropriately classified as primary government program revenues in fiscal year 2007-2008.

The following schedule is a summary of governmental fund expenditures by function for fiscal year ended June 30, 2008, 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 07-08	Percent Total	Increase (Decrease) FY 06-07	Percent Increase (Decrease)
Current:				
General government	\$ 9,033,018	9.7%	\$ (845,369)	(8.6%)
Public safety	40,909,913	43.9%	2,654,971	6.9%
Public works	11,046,771	11.8%	828,655	8.1%
Cultural and leisure services	9,780,910	10.5%	660,145	7.2%
Housing and community development	13,970,479	15.0%	2,010,249	16.8%
Capital outlay	4,121,712	4.4%	(1,196,518)	(22.5%)
Debt service	4,429,572	4.7%	1,973,017	80.3%
Total	\$ 93,292,375	100.0%	\$ 6,085,150	7.0%



Total governmental fund expenditures increased \$6.1 million or 7.0% from fiscal year 2006-2007. As mentioned earlier, the increases are attributable to:

- Public safety increased by \$2.7, or 6.9%, public works increased by \$828,655, or 8.1%, and cultural and leisure services increased by \$660,145, or 7.2%, due primarily to cost of living adjustment related to personnel and overhead increases resulting from the implementation of recommendations from a cost allocation plan analysis.
- Housing and community development increased by \$2.0 million or 16.8% primarily due to the housing Section 8 voucher program, transit related contracts and professional services, and the reclassification of RDA capital projects expenditures from general government to housing and community development.
- Debt Service expenditures increased by \$2.0 million or 80.3% due to the refunding of the City's 1996 Public Financing Authority Revenue Bonds.

Offsetting these increases are substantial decreases in general government and capital outlay expenditures. The decrease in general government of \$845,369 or 8.6% is primarily due to a reduction in redevelopment agency capital improvement projects. The decrease in capital outlay of \$1.2 million, or 22.5%, is due to a one-time purchase of public transit buses in fiscal year 2006-2007.

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

Special Revenue – Other Intergovernmental Grants Fund - The fund balance of the Special Revenue – Other Intergovernmental Grants fund on June 30, 2008 was (\$1.8) million, an increase of \$100,000 from the prior year. The increase is due to an increase in intergovernmental revenues and a substantial decrease in capital outlay expenditures versus prior year.

Special Revenue – Redevelopment Agency Fund – The fund balance of the Special Revenue – Redevelopment Agency Fund on June 30, 2008 was \$11.5 million, an increase of \$300,000 from the prior year. The increase is due to a substantial decrease in housing and community development expenditures versus prior year.

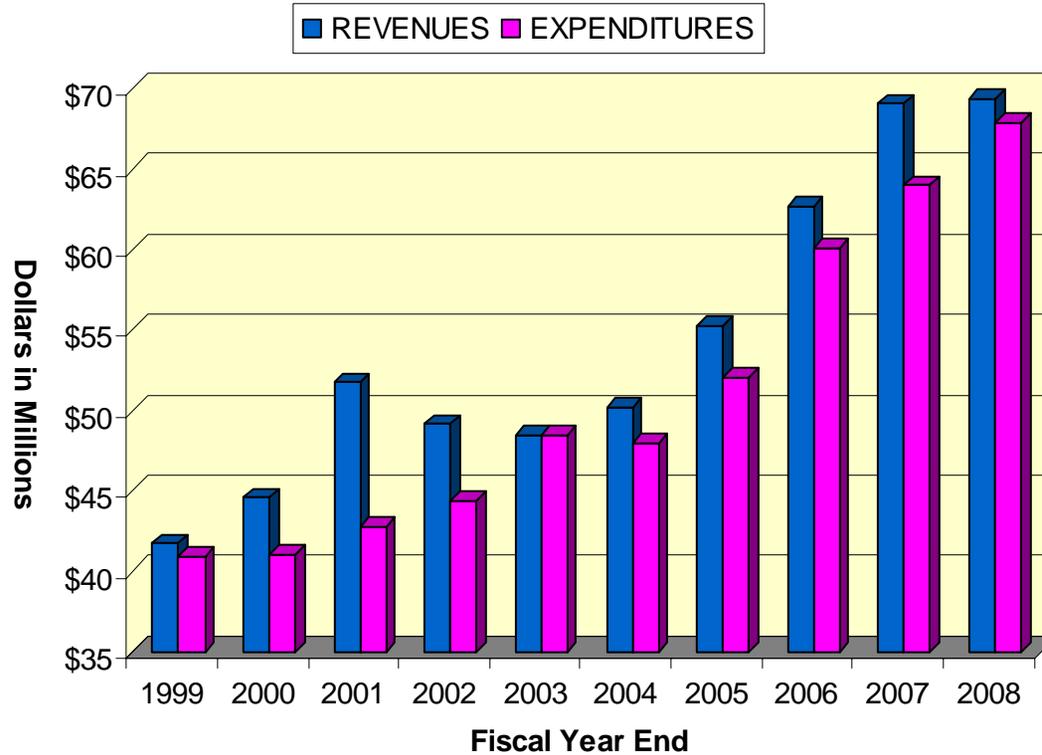
Capital Projects – Capital Improvement Projects Fund - The fund balance of the Capital Projects – Capital Improvement Projects Fund on June 30, 2008, was \$14.1 million, an increase of \$3.5 million from the prior year. The increase is primarily due to an increase in intergovernmental revenues and a substantial decrease in capital outlay expenditures versus prior year.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2008, was \$12.6 million, remaining relatively flat from fiscal year 2006-2007.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency Fund on June 30, 2008, was a negative \$16.6 million, increasing the negative fund balance by \$700,000 when compared to prior year. The increase in the negative fund balance is primarily due to a substantial increase in interest and fiscal charges related to the City's Redevelopment Agency bonds.

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 2006-2007 to fiscal year 2007-2008.

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



Impacts of both increases and decreases to General Fund revenues resulted in a net increase of \$278,163, or 0.5%, from fiscal year 2006-2007. The majority of the increase in revenue was due to taxes and fines and forfeitures, which includes parking citations and vehicle code fines. The increase in these revenues was substantially offset by a decrease in revenues related to charges for services and license and permits.

General Fund expenditures increased by \$3.9 million, or 6.5%. As mentioned earlier, increases were due to cost of living related personnel costs 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 net transfers out of \$10,301, as of June 30, 2008 was \$12.6 million, an increase of \$1.5 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 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>
General Fund Contingency	\$ 5,642,575	\$ 5,647,843	\$ 5,773,725
Compensated Absences	729,455	975,405	179,361
Carryover Designations	886,383	1,350,448	1,265,352
Retiree Medical Insurance	633,000	406,000	-
Economic Contingency	-	-	332,897
Street Landscaping & Lighting	-	-	200,000
Health Ins Premium Increases	-	274,000	186,000
Future Labor Negotiations	-	800,000	840,000
Future Years' Appropriations	1,480,000	672,517	2,569,817
Undesignated Balance	542,843	235,132	331,726

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 2007-2008 budget totaled \$72.2 million, including net amendments of \$4,423,490 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 \$632,164 for labor agreement modifications.
- Appropriation of \$20,000 for professional services related to Other Postemployment Benefits (OPEB).
- Appropriation of \$247,560 for retiree health care benefits.
- Appropriation of \$455,000 for Fire Department constant manning requirements and overtime related to Hermosa Beach paramedic services.
- Appropriation of \$1,017,024 for a one-time payroll adjustment to accurately reflect payroll in the correct fiscal year.
- Funding of prior-year encumbrances of \$584,476.
- Funding of carry-over appropriations of \$1,350,448.
- Funding of mid-year appropriations of \$216,818.
- Negative appropriation of \$100,000 to move funding for the historical museum from the General Fund to the Capital Projects Fund.

Budget amendments were funded from/credited to available fund balance. During the year, however, revenues exceeded budgetary estimates by \$1.5 million and expenditures were \$4.5 million less than budgetary estimates, primarily due to personnel vacancies 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, 2008, net capital assets of the governmental and business-type activities totaled \$134.6 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 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, 2008 the City's street system was rated at a PQI of 8.4.

The City's budget for street maintenance for the fiscal year ended June 30, 2008 was \$4.9 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, 2008 through June 30, 2010 is a minimum of \$10.2 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	37,274,147	(11,900,776)	25,373,371
Equipment, Vehicles, Machinery	17,668,540	(10,876,168)	6,792,372
Work in Progress	1,003,491		1,003,491
Construction in Progress	268,180		268,180
Infrastructure	120,170,494	(35,541,853)	84,628,641
Total	\$ 192,907,799	\$ (58,318,797)	\$ 134,589,002
Capital Assets - Business-Type Activities			
Land	\$ 11,323,255	\$ -	\$ 11,323,255
Buildings and Improvements	27,947,224	(12,187,984)	15,759,240
Equipment, Vehicles, Machinery	1,025,451	(647,187)	378,264
Construction in Progress	-		
Infrastructure	21,937,304	(9,185,589)	12,751,715
Total	\$ 62,233,234	\$ (22,020,760)	\$ 40,212,474

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 2007-2008 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	\$ 22,420,000	0.20%	\$ 332.21

The current bonds for the City are those which have been issued by the Public Financing Authority. The bonds outstanding as of June 30, 2008, are the South Bay Redevelopment Project 2008 Refunding Revenue Bonds in the amount of \$7.6 million, the Aviation High School Redevelopment Project 2000 Tax Allocation Bonds in the amount of \$2.9 million, the Redondo Pier Reconstruction Project 2001 Refunding Revenue Bonds in the amount of \$2.3 million, and the Wastewater System Financing Project 2004 Revenue Bonds in the amount of \$9.6 million. The South Bay Center bonds were issued to refund the Public Financing Authority's outstanding 1996 revenue bonds. 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 2008-2009 budget projecting General Fund revenues from outside sources to increase 1.5%, or \$942,000 over the fiscal year 2007-2008 final budget. Budgetary expectations reflect:

- Property tax revenue is projected to increase by 5.7%, or \$989,000, to \$18,315,000 from the fiscal year 2007-2008 final budget, excluding property tax in lieu of VLF and homeowners' exemptions. Property tax revenue continues to increase slowly, due to moderated levels of real estate sales, location desirability of the community, and Proposition 13 valuation growth. Property tax revenue is the City's number one source of operating revenue.

- Sales and use tax revenue is projected to decline by 1.9%, or \$196,000, to \$10,078,000. This projection is conservatively 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 decrease by 1.6%, or \$125,000, to \$7,675,000. The one –time impact of a fiscal year 2008-2009 withdrawal of UUT for Williams Energy from the UUT payer base due to an adverse litigation ruling accounts for \$115,000 of the decrease. 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 \$3.19 million, or 42%, of this revenue source, while \$2.64 million, or 34%, 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 is addressing these challenges by placing a measure on the March 2009 ballot to modernize the City’s UUT ordinance, therefore, securing these important tax-based resources.
- Franchise fees are projected to increase modestly by 1.8%, or \$33,000, to \$1,846,000. Components of franchise fee revenue include Time Warner cable television operations, Southern California Edison electricity franchise, Southern California Gas operations, Verizon, and taxicab franchise operations. 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 2008-2009, while projected revenue from the electricity franchise represents 21%. The 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 a conservative estimate from this revenue source.
- Investment earnings for the General Fund for fiscal year 2008-2009 are projected to decrease by 11.1%, or \$202,500, to \$1,619,500. This decline is attributable to lower rates within the investment marketplace. The three major components of the portfolio are: liquid investments with the State Local Agency Investment Fund, and both Federal Agency and high-grade corporate Medium-Term Note Investments structured with a 1 to 5 year investment maturity mix. 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 serves 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), is projected as a portion of the Intergovernmental revenues. These fees are projected by the State Department of Finance and scheduled to increase by \$28,000, or 8.2%, to \$371,000. Projected growth in the amount of motor vehicle license fee revenue is attributable to the apportionment of current revenue from the State net of withholding for various State administrative 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 \$229,000, or 4.6%, to \$5,205,000. VLF revenue parallels growth in City property tax revenue.

Budgeted General Fund appropriations decreased 1.8%, or \$1.3 million, to \$69,312,421, from the prior final budget. Personnel costs increased 1.3%, primarily due to cost of living increases and the new Other Post-Employment Benefits (OPEB) contribution of 4.5% of applicable payroll expenditures. Internal service fund allocations increased 2.1%, or \$339,564; however, the allocation will be adjusted at the midyear review. There were significant cost reductions in maintenance and operations expenditures of 19.8% 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.

Although Redondo Beach saw a healthy increase of 9.18% in real property assessed valuations for FY 2007-2008 and transient occupancy rates remained strong at 79%, the economic outlook for the region is showing signs of recession. In FY 2007-2008, sales tax revenue was less than projected in the FY 2007-2008 budget, a result of reduced consumer confidence and weaker consumer spending. Still, Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 32 out of 88 cities. Another factor indicating a potential slowdown in the local economy is the slight increase in the Redondo Beach unemployment rate, which increased from 2.7% in 2006 to 2.9% in 2007.

Looking forward, financial market instability, the impact from the sub prime mortgage crisis, and organizations' lack of access to credit markets are negatively affecting National, State, and local economic performance. It is expected that sales tax revenue will further decline; real property inventory will heighten; and transient occupancy tax will possibly flatten.

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 310-318-0683, or e-mail FinanceMail@redondo.org