

CITY OF REDONDO BEACH, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

- 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.

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 Emergency Communications.

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.

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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 2006, 2007 and 2008, the City's street system was rated at a PQI of 7.9 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.

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.

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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:

November 20, 2007	Unsecured, redemptions, and SB813 taxes
December 20, 2007	Homeowners' exemption, secured, and SB813 taxes
January 18, 2008	Homeowners' exemption, secured, and SB813 taxes
February 20, 2008	Redemptions, secured, and SB813 taxes
March 20, 2008	Secured and SB813 taxes
April 18, 2008	Secured and SB813 taxes
May 20, 2008	Redemptions, homeowner's exemption, secured, and SB813 taxes
June 20, 2008	Homeowners' exemption, SB813 taxes
July 18, 2008	Secured and SB813 taxes
August 20, 2008	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.

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

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:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Major Funds:			
General Fund:			
Cultural and leisure services	\$ 9,693,228	\$ 9,780,910	\$ (87,682)
Transfers out	1,340,200	2,122,325	(782,125)
Redevelopment Agency - Special Revenue:			
Housing and community development	715,877	922,585	(206,708)
Capital Improvement Projects:			
Transfers out	-	1,294,124	(1,294,124)
Public Financing Authority:			
Principal retirement	363,958	1,339,952	(975,994)
Interest and fiscal charges	919,640	1,320,770	(401,130)
Transfers out	650	675,192	(674,542)
Refunded bonds redeemed	-	7,645,000	(7,645,000)
Redevelopment Agency - Debt Service			
Housing and community development	-	47,924	(47,924)
Principal retirement	-	186,859	(186,859)
Interest and fiscal charges	1,074,026	1,581,991	(507,965)
Transfers out	2,088,760	1,801,530	287,230

c. Deficit Fund Balance

The following funds had a deficit fund balance as of June 30, 2008:

Major Funds:	
Other Intergovernmental Grants	\$ (1,750,963)
Redevelopment Agency - Debt Service Fund	(16,624,467)
Non-Major Funds:	
Transit Fund	(62,731)
South Bay Youth Project	(78,610)
Workforce Investment Act	(53,721)
Community Development Block Grant	(81,524)

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, 2008, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 63,524,788
Business-type activities	26,569,177
Fiduciary funds	<u>59,991,705</u>
Total Cash and Investments	<u>\$ 150,085,670</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, 2008, the carrying amount of the City's deposits was \$64,344,712 and the bank balance was \$66,466,475. The \$2,121,763 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.

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

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 3: Cash and Investments (Continued)

- 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.

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, 2008, all MTN's were rated "AA" or higher by Moody's. As of June 30, 2008, 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, 2008, the City's investments in external investment pools are unrated.

City of Redondo Beach
Notes to Financial Statements (Continued)

Note 3: Cash and Investments (Continued)

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, 2008, 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, 2008, 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	\$ 5,042,013	5.88%
Federal Home Loan Mortgage Corp.	6,024,400	7.03%
Federal Home Loan Bank	9,121,580	10.64%

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

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, 2008, the City had the following investments and remaining maturities:

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

Note 3: Cash and Investments (Continued)

Investment Type:	Investment Maturities					Fair Value
	6 months or less	6 months to 1 year	1 to 3 years	3 to 5 years	More than 5 years	
External Investment Pools -						
Local Agency Investment Fund	\$ 37,262,068	\$ -	\$ -	\$ -	\$ -	\$ 37,262,068
Federal Agencies -						
Federal National Mortgage Assoc.	-	1,016,880	3,023,573	1,001,560	-	5,042,013
Federal Home Loan Mortgage Corp.	-	-	3,005,220	3,019,180	-	6,024,400
Federal Home Loan Bank	-	-	4,008,760	5,112,820	-	9,121,580
Corporate Bonds	998,370	-	8,017,050	8,664,560	-	17,679,980
Treasury Obligations -						
First American Treasury Obligation	4,946,203	-	-	-	-	4,946,203
Treasury note	762,953	-	-	-	-	762,953
Investment Agreements -						
AIG Matched Fund Corp.	-	-	-	-	663,250	663,250
Rabobank International	-	4,238,511	-	-	-	4,238,511
Total Investments	\$ 43,969,594	\$ 5,255,391	\$ 18,054,603	\$ 17,798,120	\$ 663,250	\$ 85,740,958

Note 4: Receivables

The following is a summary of receivables net of allowances for uncollectible amounts at June 30, 2008:

	Government-Wide Statement of Net Assets		Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities	Business- Type Activities		
Accounts receivable	\$ 970,752	\$ 610,211	\$ 32,805	\$ 1,613,768
Interest receivable	602,828	142,886	1,272	746,986
Taxes receivable	4,607,530	87,118	-	4,694,648
Loans receivable	6,885,769	281,134	-	7,166,903
Total Receivables	\$ 13,066,879	\$ 1,121,349	\$ 34,077	\$ 14,222,305

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

Note 4: Receivables (Continued)

Fund Financial Statements

At June 30, 2008, 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, 2008, was as follows:

Governmental Funds:	
General Fund	\$ 847,910
Other Intergovernmental Grants	70,664
Public Financing Authority - Debt Service	20,917
Non-Major Funds	<u>29,282</u>
Total Governmental Funds	<u>968,773</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	386,425
Harbor Uplands - Enterprise Fund	96,596
Wastewater Fund - Enterprise Fund	65,319
Non-Major Funds	61,871
Internal Service Funds	<u>1,979</u>
Total Proprietary Funds	<u>612,190</u>
Fiduciary Funds:	
Agency Funds	<u>32,805</u>
Total Fiduciary Funds	<u>32,805</u>
Total Accounts Receivable	<u><u>\$ 1,613,768</u></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, 2008, was as follows:

Governmental Funds:	
General Fund	\$ 457,165
Other Intergovernmental Grants - Special Revenue	1,836
Redevelopment Agency Fund - Special Revenue	59,687
Public Financing Authority - Debt Service	1,759
Non-Major Funds	<u>82,381</u>
Total Governmental Funds	<u>602,828</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	106,880
Harbor Uplands - Enterprise Fund	35,685
Non-Major Funds	<u>321</u>
Total Proprietary Funds	<u>142,886</u>
Fiduciary Funds:	
Agency Funds	<u>1,272</u>
Total Interest Receivable	<u>\$ 746,986</u>

c. Taxes Receivable

At June 30, 2008, the City had the following taxes receivable:

Type of Taxes:	Governmental Funds			Proprietary Funds		Total	
	General Fund	Redevelopment Agency Fund - Special Revenue	Redevelopment Agency Fund - Debt Service	Non-Major Governmental Funds	Solid Waste		Waste-Water
Property taxes	\$ 1,173,232	\$ 26,528	\$ 50,660	\$ 69,306	\$ 50,206	\$ 36,912	\$ 1,406,844
Sales taxes	1,731,525	-	-	-	-	-	1,731,525
Transient occupancy taxes	348,070	-	-	-	-	-	348,070
Utility users taxes	673,065	-	-	-	-	-	673,065
Transfer Tax	141,921	-	-	-	-	-	141,921
Gas Tax	-	-	-	389,944	-	-	389,944
Other tax	3,279	-	-	-	-	-	3,279
Total Taxes Receivable	<u>\$ 4,071,092</u>	<u>\$ 26,528</u>	<u>\$ 50,660</u>	<u>\$ 459,250</u>	<u>\$ 50,206</u>	<u>\$ 36,912</u>	<u>\$ 4,694,648</u>

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

Note 4: Receivables (Continued)

d. Loans Receivable

At June 30, 2008, 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	\$ -	\$ 831,634	\$ 218,713	\$ -	\$ 1,050,347
Rental Rehab Program	-	-	271,682	-	271,682
Landlord Program	-	-	21,668	-	21,668
Senior Housing Program	-	5,524,594	-	-	5,524,594
Computer Loan Program	17,478	-	-	-	17,478
Harbor Area Business Loan	-	-	-	281,134	281,134
Total Loans Receivable	\$ 17,478	\$ 6,356,228	\$ 512,063	\$ 281,134	\$ 7,166,903

Home Rehabilitation Loans

At June 30, 2008, the City was owed, in its Redevelopment Agency Fund, \$831,634 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, 2008, the City was owed, in its Community Development Block Grant -Special Revenue Fund, \$512,063 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, 2008, the City's Harbor Tidelands - Enterprise Fund was owed \$218,606 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, 2008, the City's Harbor Tidelands - Enterprise Fund was owed \$62,528 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, 2008, the loan receivable, including accrued interest of \$268,750 and a corresponding fund balance reservation, was \$2,768,750.

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 45th 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, 2008, the loan receivable, including accrued interest of \$555,844 and a corresponding fund balance reservation was \$2,755,844.

**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, 2008, was as follows:

a. Due To/From Other 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	\$ -	\$ 6,244	\$ 80	\$ 215	\$ -	\$ 6,539
Other Intergovernmental Grants	1,525,485	-	-	-	-	1,525,485
RDA Special Revenue	23,708	-	-	-	-	23,708
Public Financing Authority	971	-	-	-	413,177	414,148
RDA Debt Service	-	46,001	148,025	-	-	194,026
Non-Major Governmental Funds	998,709	204,196	-	-	-	1,202,905
Proprietary Funds:						
Internal Service Funds	140,354	-	-	-	-	140,354
Total Due To/From Other Funds	\$ 2,689,227	\$ 256,441	\$ 148,105	\$ 215	\$ 413,177	\$ 3,507,165

The General Fund has a due from other funds of \$23,708 from the RDA-Special Revenue Fund, \$56,432 from Non-Major Governmental funds, and \$971 from Public Financing Authority to reimburse the city for expenditures made on Public Finance Authority, Redevelopment Agency, and Housing Authority's behalf. The General fund also has a due from other funds of \$1,525,485 from Other Intergovernmental Grants, \$942,277 from Non-Major Governmental funds, and \$140,354 from internal service funds for temporary cash deficits.

The Redevelopment Agency – Special Revenue Fund has a due from the General Fund of \$6,244 for a reimbursement to the City for expenditures made on the Redevelopment Agency's behalf. The Redevelopment Agency – Special Revenue Fund also 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 Redevelopment Agency –Special Revenue Fund also has a due from Non-Major Governmental funds of \$204,196 for a temporary cash deficit.

The Public Financing Authority has a due from other funds of \$148,024 which consists of debt service payments paid on the Redevelopment Agency's behalf. The Public Financing Authority also has a due from other funds of \$80 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 Harbor Tidelands has a due from other funds of \$413,177 from the Public Financing Authority which was a result of Kincaid's Restaurant rental income in excess of PFA obligations passed through to Harbor Tidelands.

The Non-Major Governmental Funds has a due from General Fund for \$215 for reimbursement of expenditures made on behalf of the Redevelopment Agency.

b. Advances To/From Other Funds

	Advances from other funds (Payable):	
	RDA Debt Service	Total
Advances to other funds (Receivable):		
Governmental Funds:		
Public Financing Authority	\$ 8,946,799	\$ 8,946,799
Proprietary Funds:		
Harbor Tidelands	6,276,941	6,276,941
Harbor Uplands	2,024,493	2,024,493
Total Advances To/From Other Funds	\$ 17,248,233	\$ 17,248,233

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, 2008, loans to and accrued unpaid interest owed on those loans were \$8,301,434.

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, 2008, are \$281,453 for the 2000 Variable Rate Demand Bond, \$1,310,346 for the 2001 Pier Refinancing Bond, and \$7,355,000 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 Out:					Proprietary Funds Internal Service Funds	Total
	Governmental Funds						
	General Fund	Capital Improvement Projects	Public Financing Authority	RDA Debt Service	Non-Major Governmental Funds		
Transfers In:							
Governmental Funds:							
General Fund	\$ -	\$ 1,017,024	\$ -	\$ -	\$ -	\$ 1,095,000	\$ 2,112,024
Capital Improvement Project:	900,000	-	-	-	-	3,675,295	4,575,295
Public Financing Authority	-	-	-	1,801,530	-	-	1,801,530
RDA - Debt Service	-	-	675,192	-	-	-	675,192
Non-Major Governmental	1,140,625	32,786	-	-	737,100	-	1,910,511
Proprietary Funds:							
Harbor Tidelands	-	61,057	-	-	-	-	61,057
Harbor Uplands	-	61,647	-	-	-	-	61,647
Wastewater	-	12,500	-	-	-	-	12,500
Non-major - Solid Waste	-	11,506	-	-	-	-	11,506
Internal Service Funds	81,700	97,604	-	-	-	-	179,304
Total Interfund Transfers	\$ 2,122,325	\$ 1,294,124	\$ 675,192	\$ 1,801,530	\$ 737,100	\$ 4,770,295	\$ 11,400,566

The General Fund transferred out a total of \$2,122,325 to various funds consisting of \$1,140,625 to Non-Major Governmental funds and \$81,700 to the Building Occupancy Internal Service Fund for operations and \$900,000 to the Capital Improvement Projects Fund to fund capital improvement projects.

The Capital Improvement Projects Fund transferred out a total of \$1,294,124 to various governmental and proprietary funds for the recommended "Take-Back".

Transfers between the Public Financing Authority of \$675,192 and \$1,801,530 and RDA Debt Service pertained to debt service.

Transfers were made within Non-major Governmental funds of \$737,100 consisted of Proposition A revenues to cover Transit Fund expenditures.

Transfers out of the Self-Insurance Internal Service Fund to the General Fund were for operations and Capital Improvement Projects Fund for capital improvement projects.

**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, 2008, is as follows:

Primary Government

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Infrastructure- streets	\$ 54,054,036	\$ -	\$ -	\$ -	\$ 54,054,036
Land	16,522,947	-	-	-	16,522,947
Construction in progress	246,811	(79,589)	100,958	-	268,180
Work in progress	1,003,491	-	-	-	1,003,491
Total capital assets not being depreciated	<u>71,827,285</u>	<u>(79,589)</u>	<u>100,958</u>	<u>-</u>	<u>71,848,654</u>
Capital assets, being depreciated:					
Buildings and improvements	36,714,813	79,589	479,745	-	37,274,147
Furniture and equipment	6,908,496	61,776	364,075	(34,990)	7,299,357
Automotive equipment	10,396,233	-	578,223	(660,324)	10,314,132
Leased equipment	61,776	(61,776)	55,051	-	55,051
Infrastructure	63,998,905	-	2,127,128	(9,575)	66,116,458
Total capital assets being depreciated	<u>118,080,223</u>	<u>79,589</u>	<u>3,604,222</u>	<u>(704,889)</u>	<u>121,059,145</u>
Less accumulated depreciation					
Buildings and improvements	10,997,924	-	902,852	-	11,900,776
Furniture and equipment	4,257,954	61,776	482,541	(34,990)	4,767,281
Automotive equipment	5,782,813	-	962,782	(636,688)	6,108,907
Leased equipment	61,755	(61,776)	21	-	-
Infrastructure	33,652,292	-	1,894,150	(4,589)	35,541,853
Total accumulated depreciation	<u>54,752,738</u>		<u>4,242,346</u>	<u>(676,267)</u>	<u>58,318,817</u>
Net depreciable assets	<u>63,327,485</u>	<u>79,589</u>	<u>(638,124)</u>	<u>(28,622)</u>	<u>62,740,328</u>
Governmental activities					
Total capital assets, net	<u>\$ 135,154,770</u>	<u>\$ -</u>	<u>\$ (537,166)</u>	<u>\$ (28,622)</u>	<u>\$ 134,588,982</u>

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

Note 6: Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 11,323,255	\$ -	\$ -	\$ 11,323,255
Total Capital assets not being depreciated	11,323,255	-	-	11,323,255
Capital assets, being depreciated:				
Automotive equipment	376,774	-	-	376,774
Buildings and improvements	27,821,275	125,950	-	27,947,225
Equipment	648,679	-	-	648,679
Leased equipment	-	-	-	-
Infrastructure	21,033,865	1,018,850	(115,412)	21,937,303
Total capital assets being depreciated	49,880,593	1,144,800	(115,412)	50,909,981
Less accumulated depreciation				
Automotive equipment	201,122	25,258	-	226,380
Building and improvements	11,581,404	606,581	-	12,187,985
Equipment	303,344	117,464	-	420,808
Leased equipment	-	-	-	-
Infrastructure	8,911,373	349,234	(75,018)	9,185,589
Total accumulated depreciation	20,997,243	1,098,537	(75,018)	22,020,762
Net depreciable assets	28,883,350	46,263	(40,394)	28,889,219
Business-type activities				
Total capital assets, net	\$ 40,206,605	\$ 46,263	\$ (40,394)	\$ 40,212,474

**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, 2008, departments/functions as follows:

Governmental Activities:	
General government	\$ 6,772
Public safety	253,185
Culture and leisure services	84,261
Public works	2,747,132
Housing and community development	231,470
Internal Service Funds:	
Vehicle Replacement	769,053
Building Occupancy	3,139
Information Technology	118,318
Printing and Graphics	6,036
Communications Equipment Replacement	22,980
	<u> </u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 4,242,346</u></u>

Depreciation expense for business-type activities for the year ended June 30, 2008, was \$1,098,537.

Note 7: Compensated Absences Payable

The following is a summary of compensated absences payable transactions for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Classification	
					Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Compensated absences payable	\$ 2,137,367	\$ 3,869,847	\$ 4,217,301	\$ 1,789,913	\$ 1,394,324	\$ 395,589
Business-Type Activities:						
Compensated absences payable	274,929	247,012	416,101	105,840	82,448	23,392
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total compensated absences payable	<u><u>\$ 2,412,296</u></u>	<u><u>\$ 4,116,859</u></u>	<u><u>\$ 4,633,402</u></u>	<u><u>\$ 1,895,753</u></u>	<u><u>\$ 1,476,772</u></u>	<u><u>\$ 418,981</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, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Classification	
					Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
PFA 1996 Revenue Bonds	\$ 8,765,000	\$ -	\$ 8,765,000	\$ -	\$ -	\$ -
PFA 2000 Tax Allocation Bonds	3,010,000	-	80,000	2,930,000	85,000	2,845,000
PFA 2001 Refunding Revenue Bonds	2,380,000	-	120,000	2,260,000	125,000	2,135,000
PFA 2008 Refunding Revenue Bonds	-	7,645,000	-	7,645,000	385,000	7,260,000
Unamortized bond premium	-	227,862	18,989	208,873	18,989	189,884
South Bay Bank Loan	1,547,061	-	19,952	1,527,109	-	1,527,109
County deferral loans	12,519,957	648,720	186,859	12,981,818	-	12,981,818
Capital Leases	919	55,051	10,751	45,219	11,010	34,209
Total governmental activities	\$ 28,222,937	\$ 8,576,633	\$ 9,201,551	\$ 27,598,019	\$ 624,999	\$ 26,973,020
Business-Type Activities:						
Wastewater Revenue Bond 2004, Series A	\$ 9,780,000	\$ -	\$ 195,000	\$ 9,585,000	\$ 200,000	\$ 9,385,000
Unamortized bond discount	(64,102)	-	(2,374)	(61,728)	(2,374)	(59,354)
Boating and Waterways						
Construction Loan 88-21-84	1,251,916	-	72,957	1,178,959	76,240	1,102,719
Boating and Waterways						
Construction Loan 89-21-147	2,929,245	-	154,724	2,774,521	161,687	2,612,834
Total business-type activities	\$ 13,897,059	\$ -	\$ 420,307	\$ 13,476,752	\$ 435,553	\$ 13,041,199

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, 2008, the balance outstanding was \$8,550,000. At June 30, 2008 the bonds were fully refunded and redeemed.

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, 2008, the balance outstanding was \$2,930,000.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2008, including interest, are as follows:

	PFA 2000 Variable Rate Demand Tax Allocation Bonds	
	Principal	Interest
2008 - 2009	\$ 85,000	\$ 80,700
2009 - 2010	90,000	78,254
2010 - 2011	90,000	75,739
2011 - 2012	90,000	73,224
2012 - 2013	95,000	70,639
2013 - 2018	535,000	310,153
2018 - 2023	645,000	227,846
2023 - 2028	770,000	129,399
2028 - 2033	530,000	22,638
Totals	<u>\$ 2,930,000</u>	<u>\$ 1,068,592</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, 2008, the balance outstanding was \$2,260,000.

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, 2008, including interest, are as follows:

	PFA 2001 Refunding Revenue Bonds	
	Principal	Interest
2008-2009	\$ 125,000	\$ 74,166
2009-2010	125,000	69,947
2010-2011	135,000	65,559
2011-2012	135,000	61,003
2012-2013	140,000	56,363
2013-2018	795,000	204,272
2018-2023	805,000	61,003
Totals	<u>\$ 2,260,000</u>	<u>\$ 592,313</u>

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

Note 8: Long-Term Debt (Continued)

Public Financing Authority 2008 Refunding Revenue Bonds

The Authority issued refunding revenue bonds dated January, 2008, totaling \$7,645,000. The proceeds of the bond were used to refund the Authority's 1996 Revenue Bonds and pay the costs of issuance of the bonds. As of June 30, 2008, the balance outstanding was \$7,853,873, net of unamortized premium.

Interest on the bonds is payable on each January 1 and July 1, commencing July 1, 2008. The bonds are payable from and a pledge of revenues consisting primarily of payments to be made by the City of Redondo Beach under a lease agreement. Principal is due annually beginning on July 1, 2008, in amounts ranging from \$385,000 to \$805,000. The bonds mature on July 1, 2019. The bonds are subject to optional and mandatory early redemption provisions.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2008, including interest, are as follows:

	PFA 2008 Refunding Revenue Bonds	
	Principal	Interest
2008-2009	\$ 385,000	\$ 258,430
2009-2010	570,000	277,575
2010-2011	590,000	255,800
2011-2012	615,000	231,700
2012-2013	640,000	206,600
2013-2018	3,595,000	620,300
2018-2023	1,250,000	42,800
Totals	<u>\$ 7,645,000</u>	<u>\$ 1,893,205</u>

The City has pledged, as security for bonds it has issued through the Financing Authority, a portion of the tax increment revenue, including Low and Moderate Income Housing set-aside that it receives. The City has committed to appropriate each year, from these resources, amounts sufficient to cover the principal and interest requirements on the debt. The remaining principal and interest on such debt is reflected in bond issues described above and amounted to \$16,389,110. For the current year, the total tax increment revenue and the required 20% Low and Moderate Income Housing set-aside recognized by the City was \$3,054,507 and \$763,627, respectively.

**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, 2008, the balance outstanding was \$1,527,109. There is no set amortization schedule for this loan.

County Deferral Loans

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
1983 Tax Increment Deferral	\$ 7,315,528	\$ 137,079	\$ 186,859	\$ 7,265,748
1984 Tax Increment Deferral	5,204,429	511,641	-	5,716,070
Total	<u>\$ 12,519,957</u>	<u>\$ 648,720</u>	<u>\$ 186,859</u>	<u>\$ 12,981,818</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, 2008, was \$7,265,748.

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, 2008, was \$5,716,070.

**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 \$55,051 and the related assets have been capitalized in the Printing and Graphics internal service fund. The balance outstanding at June 30, 2008, was \$45,219.

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, 2008:

	Capital Lease
2008 - 2009	\$ 11,010
2009 - 2010	11,010
2010 - 2011	11,010
2011 - 2012	11,010
2012 - 2013	1,179
Total	45,219
Less: imputed interest	0
Present value of minimum lease	<u>\$ 45,219</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 bond proceeds used are capital related. 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. Total revenue for the Wastewater Fund for the year ended June 30, 2008 was \$2,001,151. As of June 30, 2008, the balance outstanding was \$9,523,272, 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
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 - 2013	235,000	427,095
2013 - 2018	1,330,000	1,974,710
2018 - 2023	1,680,000	1,630,138
2023 - 2028	2,130,000	1,170,000
2028 - 2033	2,730,000	580,000
2033 - 2038	630,000	31,500
Totals	<u>\$ 9,585,000</u>	<u>\$ 7,608,423</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. A portion of the proceeds from the loan were capital related. The loan bears interest at 4.5%. As of June 30, 2008, the balance outstanding was \$1,178,959.

At June 30, 2008, the annual requirements to repay the outstanding indebtedness were as follows:

	Boating and Waterways Construction Loan 88-21-84	
	Principal	Interest
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 - 2013	90,917	38,376
2013 - 2018	519,765	126,699
2018 - 2023	242,108	16,462
Total	<u>\$ 1,178,959</u>	<u>\$ 372,540</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. A portion of the proceeds from the loan were capital related. As of June 30, 2008, the balance outstanding was \$2,774,521.

At June 30, 2008, the annual requirements to repay the outstanding indebtedness were as follows:

	Boating and Waterways Construction Loan 89-21-147	
	Principal	Interest
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 - 2013	192,814	93,726
2013 - 2018	1,102,299	330,401
2018 - 2023	787,682	71,931
Total	<u>\$ 2,774,521</u>	<u>\$ 844,492</u>

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

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

Note 9: Non-City Obligations (Continued)

District. Property owners within the Assessment District are assessed an annual tax sufficient to meet annual bond debt service requirements. At June 30, 2008, the balance outstanding was \$0.

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

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>
1993 Series B	<u>\$ 5,315,000</u>	<u>\$ 325,000</u>

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

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>
Series 2004A	<u>\$ 11,390,000</u>	<u>\$ 10,890,000</u>

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

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>
Series 2000A	<u>\$ 8,740,000</u>	<u>\$ -</u>

e. Multi-Family Housing Revenue Refunding Bonds Seasons at Redondo Beach

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>
Series 2008A	<u>\$ 6,425,000</u>	<u>\$ 6,425,000</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 2007-2008, the City had leased equipment that included 374 Dell Optiplex computers, 1 Server, 91 Dell Latitude laptops, 20 monitors, and 62 printers. The terms of the leases range from ending March 1, 2009 to ending February 1, 2011, as follows:

<u>Year Ending June 30,</u>	<u>Minimum Rental Payments</u>
2009	\$ 363,689
2010	314,600
2011	<u>124,000</u>
Total	<u>\$ 802,289</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 \$764,705 for those assets giving a carrying amount of \$9,642,190 at June 30, 2008.

**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, 2008:

<u>Year Ending June 30,</u>	<u>Minimum Future Lease Rentals</u>
2009	\$ 3,260,080
2010	3,140,032
2011	3,124,841
2012	3,073,655
2013	2,971,282
2014 - 2018	15,204,410
2019 - 2023	13,643,410
2024 - 2028	10,994,664
2029 - 2033	8,443,396
2034 - 2038	8,705,407
2039 - 2043	8,496,287
2044 - 2048	5,489,567
2049 - 2053	5,489,567
2054 - 2058	5,489,567
2059 - 2062	3,142,941
Total	<u>\$ 100,669,106</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, 2008, the estimated claims payable for workers' compensation were \$14,843,085, which included claims incurred but not reported (IBNR) of \$5,060,524. The current year's portion of the claims was \$1,081,187.

**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, 2008, the estimated claims payable for general liability were \$2,598,637, which included IBNR of \$860,667. The current year's portion was \$199,142. Governmental activities claims and judgments are generally liquidated by the general fund.

Settled claims have not exceeded any of the City's coverage amounts in any of the last three fiscal years and there was no reductions in the City's coverage during the year.

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
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
2008	16,758,773	2,829,649	(2,146,701)	17,441,721	1,280,329	16,161,392

**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, 2007:

	<u>Total</u>
Assets	<u>\$ 55,333,161</u>
Liabilities of member cities	\$ 25,615,822
Net assets	<u>29,717,339</u>
Total liabilities and net assets	<u>\$ 55,333,161</u>

Condensed audited statement of revenues, expenses and changes in retained earnings of ICRMA for the year ended June 30, 2007:

	<u>Total</u>
Revenues	\$ 21,098,846
Cost and expenses	<u>10,267,015</u>
Net income	10,831,831
Net assets - July 1, 2006	<u>18,885,508</u>
Net assets - June 30, 2007	<u>\$ 29,717,339</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 2007-2008, 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 \$2,821,443 for the year ended June 30, 2008. The City employer was required to contribute for fiscal year 2007-2008, at an actuarially determined rate of 11.610% and 32.210% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost - For 2007-2008, the City's required annual pension cost and actual contribution were \$10,130,700 for PERS. The required contribution was determined as part of the June 30, 2008, 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, 2008, was 21 years for miscellaneous and 30 years for safety employees for prior and current service unfunded liability.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$ 3,906,140	100%	\$ 1,630,656
6/30/07	7,366,175	100%	-
6/30/08	10,130,700	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 Accrued 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						
6/30/2005	\$ 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%
6/30/2007	107,468,916	117,169,713	9,700,797	91.7%	20,093,839	48.3%
Safety Employee Group						
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%
6/30/2007	185,561,290	220,319,464	34,758,174	84.2%	14,969,425	232.2%

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, 2008, the City paid \$383,814 in health insurance premiums for 97 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

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. Subsequent to June 30, 2008, a settlement check in the amount of \$58,415,437 was paid to Williams Power Company.

Note 14: Short-term borrowing

The City participated in the California Statewide Communities Development Authority's issuance of Tax and Revenue Anticipation Notes. The City's proceeds of \$5,000,000 were used to meet the City's anticipated cash flow needs for the fiscal year.

Note 15: Prior Period Adjustments

a. Governmental Funds:

Major Funds:	
Redevelopment Agency - Special Revenue Fund:	
To adjust note receivable interest for McCandles senior housing	\$ (78,288)
Non-Major Funds:	
Transit Fund:	
To adjust prior period fund balances for transit	<u>(62,931)</u>
Total Governmental Funds	<u><u>\$ (141,219)</u></u>

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

Note 15: Prior Period Adjustments (Continued)

b. Net Assets have been restated as follows:

Governmental Activities:	
To adjust note receivable interest for McCandles senior housing	\$ (78,288)
To adjust prior period fund balances for transit	<u>(62,931)</u>
	<u>\$ (141,219)</u>

Note 16: Subsequent Events

a. Financial Concerns Relating to the California Economy

As indicated in the State of California’s 2008-2009 Proposed Budget Summary – Economic Outlook:

“The California and national economies faced considerable headwinds -a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component units operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effect of these on its operations and costs.

b. ERAF Tax Increment Revenue Shift for fiscal year 2008-09

On September 30, 2008, the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the state Educational Revenue Augmentation Fund (ERAF). It is estimated that the Agency’s share of the ERAF shift for fiscal year 2008-2009 will amount to approximately \$288,719.

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

Note 16: Subsequent Events (Continued)

c. 2008 Tax Allocation Refunding Bonds

In November and December 2008, the City's Redevelopment Agency prepaid \$2,145,000 of the Public Financing Authority's 2000 Variable Rate Demand Tax Allocation Bonds. Then on October 30, 2008, the City issued its 2008 Tax Allocation Refunding Bonds in the principal amount of \$700,000 to redeem the remaining balance.