

City of Redondo Beach
Notes to the Financial Statements
For the year ended June 30, 2011

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. Financial 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 a five-member council.

As required by GAAP, the 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 are 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 (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 Agency.

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.

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.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

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 for 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 Agency's financial statements, as well as financial information relating to the other component units, can be obtained from the City Clerk's Office or Financial Services Department located at City Hall.

B. Basis of Accounting and Measurement Focus

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. Certain indirect costs are included in the program expenses reported for specific functions.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, 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 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 and non-major funds aggregated. The City has presented all major funds that have met the applicable criteria.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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

Revenues are recorded when received in cash, except for 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 taxes, sales taxes, 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 reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City reports the following major governmental funds:

- General Fund – the City's primary operating fund that accounts for all financial resources of the general government except those required to be accounted for in another fund.
- Other Intergovernmental Grants Special Revenue Fund – accounts for federal, state and other governmental agencies grant funding that supplements local funding.
- Redevelopment Agency Special Revenue Fund – 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 Agency.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

- Affordable Housing Special Revenue Fund – accounts for the accumulation of resources for, and payments related to, property acquisition, site development, developer selection, and construction of an affordable housing project.
- Capital Improvement Projects Capital Projects Fund – accounts for capital improvements for the City.
- 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.
- 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.

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 proprietary fund.

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

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

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The City reports all of its enterprise funds as major proprietary funds:

- 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.
- 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.
- 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.
- Solid Waste Fund - accounts for the revenues and expenses related to the City's comprehensive solid waste program, including AB 939 funds.
- Transit Fund - accounts for the transportation activities of the City.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Fiduciary 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.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for 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 the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments, 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 for 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.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB No. 3)*, certain disclosure requirements, if applicable, are provided for deposit and investment risk in the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentration of Credit Risk
- Foreign Currency Risk

For purposes of the statement of cash flows of the proprietary fund types, cash and cash equivalents include all investments, as the City operates an internal cash management pool which maintains the general characteristics of a demand deposit account.

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.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Interfund Transactions

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

H. Capital Assets

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

City policy has set the capitalization threshold 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; instead, all expenditures made for these assets, except for additions and improvements, are expensed in the year incurred. For all other assets, depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Asset	Years
Buildings and Improvements	45
Equipment	5 - 20
Vehicles	4 - 20
Infrastructure	5 - 60

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, Continued

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

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

Each major infrastructure system 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 financial statements; however, the City maintains detailed information on these subsystems.

In June 2011, a comprehensive 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 100. A PQI of 0 would correspond to badly deteriorated pavement with virtually no remaining life; a PQI of 100 would correspond to pavement with proper engineering design and construction at the beginning of its life cycle. During the year, the comprehensive survey is updated to reflect the pavement's current condition.

The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Very Good	90 - 100
Good	70 - 89
Fair	50 - 69
Poor	0 - 49

In line with the Capital Improvement Program and as presented to the City Council on December 17, 2002, City policy is to achieve an average rating of 80 for all streets by fiscal year 2008-09. 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 70; for 2009, 2010, and 2011, the City's street system was rated at a PQI of 82 on the average.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, Continued

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 for infrastructure reporting. As such, the City records the assets at historical cost and depreciates them over their useful lives, and regularly evaluates them for impairment. Expenditures that extend the life of the asset are capitalized.

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

Fund Financial Statements

In the governmental fund financial statements, capital assets are not presented. Consequently, capital assets are a reconciling item and are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

I. Interest Payable

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

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

J. Unearned Revenue and Deferred Revenue

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Unearned Revenue and Deferred Revenue, Continued

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 and 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 liabilities 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 the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Long-Term Debt, Continued

Fund Financial Statements

The fund financial statements do not present long-term debt. Consequently, long-term debt is a reconciling item and is 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 attributed 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

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Nonspendable fund balances are items that are not expected to be converted to cash, such as prepaid items and inventories, or items that are required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by external resources providers, such as grant providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Fund Balances, Continued

Committed – Committed fund balances include amounts that can be used only for the specific purposes determined by formal action of the government’s highest level of decision making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The City Council is considered the highest authority for the City.

Assigned – Assigned fund balances comprise amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds, other than the General Fund, assigned fund balance represents all amounts that are not classified as restricted or committed. Resources in governmental funds other than the General Fund are to be used for the specific purpose of that fund.

Unassigned – Unassigned fund balance is a residual (surplus) classification used for the General Fund only and includes amounts not contained in the other classifications. Unassigned amounts in the General Fund are technically available for any purpose. If a governmental fund, other than the General Fund, has a fund balance deficit, it will be reported as a negative amount in the unassigned classification in that fund.

Spending Policy

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the City’s policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

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, 2010	Unsecured, redemptions, and SB813 taxes
December 18, 2010	Homeowners' exemption, secured, and SB813 taxes
January 20, 2011	Homeowners' exemption, secured, and SB813 taxes
February 19, 2011	Redemptions, secured, and SB813 taxes
March 19, 2011	Secured and SB813 taxes
April 20, 2011	Secured and SB813 taxes
	Redemptions, homeowners' exemption, secured, and
May 20, 2011	SB813 taxes
June 18, 2011	Homeowners' exemption, SB813 taxes
July 20, 2011	Secured and SB813 taxes
August 20, 2011	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 the Financial Statements, Continued
For the year ended June 30, 2011

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of expenditures over appropriations in individual funds was as follows:

Fund	Appropriations	Expenditures	Excess
Major Funds:			
General Fund:			
Transfers out	\$ 2,779,571	\$ 3,131,463	\$ (351,892)
Redevelopment Agency - Special Revenue:			
Transfers out	-	10,363,523	(10,363,523)
Other Intergovernmental Grants:			
Public works	87,331	259,902	(172,571)
Capital Improvements:			
Public works	118,761	288,419	(169,658)
Public Financing Authority:			
Principal retirement	461,535	725,000	(263,465)
Redevelopment Agency - Debt Service:			
Housing and community development	46,400	86,017	(39,617)
Non-Major Funds:			
Traffic Congestion Relief:			
Public works	-	5,270	(5,270)
Proposition C:			
Housing and community development	853	33,405	(32,552)
Local Transit:			
Public works	-	8,737	(8,737)
Air Quality Improvement:			
Housing and community development	63,665	71,570	(7,905)
Community Development Block Grant:			
Housing and community development	329,763	329,873	(110)
Disaster Recovery:			
Housing and community development	17,060	34,292	(17,232)
Housing Authority:			
Housing and community development	5,537,160	6,046,958	(509,798)
Subdivision Park Trust:			
Housing and community development	-	29,557	(29,557)
Redevelopment Agency - Capital Projects:			
Housing and community development	591,727	616,916	(25,189)

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, Continued

B. Deficit Fund Balance

The unrestricted net assets had a deficit balance of (\$12,443,192) for the governmental activities at June 30, 2011.

The following funds had a deficit balance as of June 30, 2011:

Major Funds:		
Other Intergovernmental Grants	\$	(3,027,926)
Redevelopment Agency - Debt Service Fund		(15,046,266)
Non-Major Funds:		
Traffic Congestion Relief		(6,500)
Local Transit		(15)
Street Landscaping & Lighting District		(755)
Community Development Block Grant		(169,967)

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

3. CASH AND INVESTMENTS

Cash and investments are presented on the Statement of Net Assets as follows at June 30, 2011:

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental	Business-	Total	Statement of	Total
	Activities	Type Activities		Net Assets	
Cash and investments	\$ 56,477,950	\$ 22,119,471	\$ 78,597,421	\$ 179,257	\$ 78,776,678
Restricted cash and investments with fiscal agents	1,699,785	4,067,003	5,766,788	-	5,766,788
Total	\$ 58,177,735	\$ 26,186,474	\$ 84,364,209	\$ 179,257	\$ 84,543,466

Cash, cash equivalents, and investments consisted of the following at June 30, 2011:

Cash and cash equivalents:	
Petty cash	\$ 17,300
Demand deposits	3,967,412
Total cash and cash equivalents	3,984,712
Investments:	
Local Agency Investment Fund (LAIF)	32,303,876
Corporate Bonds	20,485,340
U.S. Government Securities	22,002,750
Total investments	74,791,966
Total cash and investments	78,776,678
Cash and investments with fiscal agent	5,766,788
Total	\$ 84,543,466

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

3. CASH AND INVESTMENTS, Continued

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$3,967,412 at June 30, 2011. Bank balances at June 30, 2011, were \$5,329,168 which were fully insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The fair value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

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

B. Investments

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

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

3. CASH AND INVESTMENTS, Continued

B. Investments, Continued

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).

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2011, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes, debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the City had \$32,303,876 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001576470 was used to calculate the fair value of the investments in LAIF.

C. Deposit and Investment Risk

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, 2011, all MTN's were rated "B" or higher by Moody's. As of June 30, 2011, the City's Federal Agency investments were rated "Aaa" by Moody's and S&P. All securities were investment grade and were in accordance with 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, 2011, the City's investments in external investment pools are unrated.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

3. CASH AND INVESTMENTS, Continued

C. Deposit and Investment Risk, 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, 2011, 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, 2011, 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 Home Loan Bank	\$ 6,013,720	8.04%
Federal Home Loan Mortgage Corp.	\$ 4,995,500	6.68%
Federal National Mortgage Association	\$ 8,985,240	12.01%

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

3. CASH AND INVESTMENTS, Continued

C. Deposit and Investment Risk, Continued

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 50% of the City's portfolio shall mature in three years or less; and at least 25% in one year or less. The only exception to these maturity limits shall be the investment of the gross proceeds of tax exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2011, the City had the following investments and remaining maturities:

Investment Types	Investment Maturities					Fair value
	Up to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	More than 5 years	
External Investment Pools -						
Local Agency Investment Fund	\$ 32,303,876	\$ -	\$ -	\$ -	\$ -	\$ 32,303,876
Non-U.S. Securities	-	-	-	980,170	-	980,170
Federal Agencies -						
Federal Farm Credit Bank	-	-	-	2,008,290	-	2,008,290
Federal Home Loan Bank	-	-	1,001,110	5,012,610	-	6,013,720
Federal Home Loan Mortgage Corp.	-	-	3,007,010	1,988,490	-	4,995,500
Federal National Mortgage Assoc.	-	-	1,000,090	7,985,150	-	8,985,240
Corporate Bonds	3,023,720	4,092,860	6,313,680	6,074,910	-	19,505,170
Total Investments	<u>\$ 35,327,596</u>	<u>\$ 4,092,860</u>	<u>\$ 11,321,890</u>	<u>\$ 24,049,620</u>	<u>\$ -</u>	<u>\$ 74,791,966</u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

4. RECEIVABLES

The following is a summary of receivables net of allowances for uncollectible amounts at June 30, 2011:

	Government-Wide Statement of Net Assets		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Assets	
Accounts Receivable	\$ 1,002,104	\$ 531,839	\$ 52,412	\$ 1,586,355
Interest Receivable	411,262	111,083	808	523,153
Taxes Receivable	4,455,324	145,434	-	4,600,758
Loans Receivable	4,329,195	212,733	-	4,541,928
Total	<u>\$ 10,197,885</u>	<u>\$ 1,001,089</u>	<u>\$ 53,220</u>	<u>\$ 11,252,194</u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

4. RECEIVABLES, Continued

A. Fund Financial Statements

At June 30, 2011, the Fund Financial Statements show the following receivables:

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, 2011, was as follows:

Governmental Funds:	
General Fund	\$ 890,602
Other Intergovernmental Grants - Special Revenue	12,706
Capital Improvement Projects - Capital Projects	51,035
Public Financing Authority - Debt Service	12,679
Non-Major Funds	<u>5,822</u>
Total Governmental Funds	<u>972,844</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	222,287
Harbor Uplands - Enterprise Fund	132,600
Wastewater - Enterprise Fund	34,989
Solid Waste - Enterprise Fund	54,196
Transit - Enterprise Fund	87,767
Internal Service Funds	<u>29,260</u>
Total Proprietary Funds	<u>561,099</u>
Fiduciary Funds:	
Agency Funds	<u>52,412</u>
Total Fiduciary Funds	<u>52,412</u>
Total Accounts Receivable	<u><u>\$ 1,586,355</u></u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

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, 2011, was as follows:

Governmental Funds:	
General Fund	\$ 290,464
Other Intergovernmental Grants - Special Revenue	1,966
Redevelopment Agency Fund - Special Revenue	62,031
Public Financing Authority - Debt Service	193
Non-Major Funds	56,608
Total Governmental Funds	<u>411,262</u>
Proprietary Funds:	
Harbor Tidelands - Enterprise Fund	93,238
Harbor Uplands - Enterprise Fund	16,762
Solid Waste - Enterprise Fund	100
Transit - Enterprise Fund	983
Total Proprietary Funds	<u>111,083</u>
Fiduciary Funds:	
Agency Funds	808
Total	<u><u>\$ 523,153</u></u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

4. RECEIVABLES, Continued

C. Taxes Receivable

At June 30, 2011, the City had the following taxes receivable:

	Governmental Funds				Proprietary Funds		Total
	General Fund	Redevelopment Agency Fund Special Revenue	Redevelopment Agency Fund Debt Service	Non-Major Governmental Funds	Waste-Water	Solid Waste	
Type of Taxes:							
Property Taxes	\$ 1,036,839	\$ 29,758	\$ 93,741	\$ 78,403	\$ 68,411	\$ 77,023	\$ 1,384,175
Sales Taxes	1,065,800	-	-	-	-	-	1,065,800
Transient Occupancy Taxes	316,892	-	-	-	-	-	316,892
Utility Users Taxes	634,308	-	-	-	-	-	634,308
Transfer Taxes	106,444	-	-	-	-	-	106,444
Gas Taxes	-	-	-	200,782	-	-	200,782
Motor Vehicle License	33,692	-	-	-	-	-	33,692
PSAF	98,811	-	-	-	-	-	98,811
Triple Flip	759,854	-	-	-	-	-	759,854
Total taxes	\$ 4,052,640	\$ 29,758	\$ 93,741	\$ 279,185	\$ 68,411	\$ 77,023	\$ 4,600,758

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

4. RECEIVABLES, Continued

D. Loans Receivable

At June 30, 2011, the City had the following loans receivable:

	Governmental Funds			Proprietary	Total
	General Fund	Affordable Housing Special Revenue Fund	Non-Major Governmental Funds	Harbor Tidelands Enterprise Fund	
Home Rehabilitation Loans	\$ -	\$ 965,774	\$ 183,213	\$ -	\$ 1,148,987
Rental Rehab Program	-	-	271,682	-	271,682
Landlord Program	-	-	21,668	-	21,668
Senior Housing Program	-	2,863,523	-	-	2,863,523
Computer Loan Program	23,335	-	-	-	23,335
Harbor Area Business Loans	-	-	-	212,733	212,733
Total	\$ 23,335	\$ 3,829,297	\$ 476,563	\$ 212,733	\$ 4,541,928

Home Rehabilitation Loans

At June 30, 2011, the City was owed, in its Redevelopment Agency Special Revenue Fund, \$965,774 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 in the government funds. Revenue is recognized in the year of repayment. All loans are secured by trust deeds.

Housing Assistance Loans

At June 30, 2011, the City was owed, in its Community Development Block Grant Special Revenue Fund, \$476,563 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 the Financial Statements, Continued
For the year ended June 30, 2011

4. RECEIVABLES, Continued

D. Loans Receivable, Continued

Harbor Area Business Loans

At June 30, 2011, the City's Harbor Tidelands Enterprise Fund was owed \$162,765 for repairs made on behalf of a harbor area business subsequent to the storms of 1988. The terms of the twenty-eight year \$488,871 contract call for interest at 1.6% per annum. Principal and accrued interest are payable annually.

In addition, the City's Harbor Tidelands Enterprise Fund was owed another \$49,968 for repairs made on behalf of a harbor area business subsequent to the storms of 1988. The terms of the twenty-seven year \$104,844 contract call for interest at 4.7% per annum. Principal and accrued interest are payable annually.

Senior Housing Program

On June 21, 1995, the Agency loaned \$2,200,000 to the 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 of the housing complex. The loan is secured by the Agency Deed of Trust. At June 30, 2011, the loan receivable included accrued interest of \$663,523.

Computer Loan Program

The City has a computer loan program for employees to purchase computers. The maximum loan amount per employee is \$1,500 with a repayment term maximum of two years. Repayments from the employees are made through payroll deductions. At June 30, 2011, the loan receivable balance was \$23,335.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS

A. Government-Wide Financial Statements

Internal Balances

At June 30, 2011, the City had the following internal receivables and payables for covering cash shortfalls:

	Internal Balances Receivable
	Business-Type Activities
Internal Balances Payable	
Governmental Activities	\$ 8,479,499

Transfers

The City had the following transfers as of June 30, 2011:

	Transfers In
	Business-Type Activities
Transfers Out	
Governmental Activities	\$ 758,345

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements

Due to/from Other Funds

The City had the following due to/from other funds as of June 30, 2011:

	Due from Other Funds								
	General Fund	Redevelopment Agency Fund Special Revenue	Affordable Housing Special Revenue	Capital Improvement Projects	Public Financing Authority	Non-Major Governmental Funds	Harbor Tidelands Enterprise Fund	Internal Service Funds	Total
General Fund	\$ -	\$ 6,244	\$ -	\$ 1,000,000	\$ 81	\$ 19,496	\$ -	\$ 510,000	\$ 1,535,821
Other Intergovernmental Grants	1,706,836	-	-	-	-	-	-	-	1,706,836
Redevelopment Agency Fund - Special Revenue	130,419	-	7,500,000	-	-	-	-	-	7,630,419
Public Financing Authority	3,508	-	-	-	-	-	338,387	-	341,895
Redevelopment Agency Fund - Debt Service	-	-	-	-	148,024	-	211,937	-	359,961
Non-Major Governmental Funds	321,806	-	-	-	-	-	-	-	321,806
Total	\$ 2,162,569	\$ 6,244	\$ 7,500,000	\$ 1,000,000	\$ 148,105	\$ 19,496	\$ 550,324	\$ 510,000	\$ 11,896,738

The General Fund has a due from the Other Intergovernmental Grants Fund of \$1,706,836, and from the Non-Major Governmental Funds of \$145,724 for temporary cash deficits.

The General Fund has a due from the Redevelopment Agency - Special Revenue Fund of \$130,419 to reimburse the City for expenditures made on the Agency's behalf.

The General Fund has a due from the Financing Authority of \$3,508 to reimburse the City for expenditures made on the Financing Authority's behalf.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

The General Fund has a due from Non-Major Governmental Funds of \$176,082 to reimburse the City for expenditures made on the Housing Authority's behalf.

The Redevelopment Agency - Special Revenue Fund has a due from the General Fund of \$6,244 for reimbursement of expenditures made on the Agency's behalf.

The Affordable Housing Special Revenue Fund has a due from the Redevelopment Agency - Special Revenue Fund of \$7,500,000 for the transfer of assets from the Agency to the City based on a cooperation agreement.

The Capital Improvement Projects Fund has a due from the General Fund of \$1,000,000 to fund future capital improvement projects.

The Financing Authority has a due from other funds of \$148,024 which consists of debt service payments paid on the Agency's behalf. The Financing Authority also has a due from other funds of \$81 from the General Fund which relates to reimbursement of expenditures incurred on the behalf of other funds.

The Non-Major Governmental Funds has a due from General Fund of \$19,280 for reimbursement of expenditures made on the Housing Authority's behalf, and \$216 for reimbursement of expenditures made on the Agency's behalf.

The Harbor Tidelands Enterprise Fund has a due from the Financing Authority of \$338,387 which was a result of Kincaid's Restaurant rental income in excess of Financing Authority obligations passed through to the Harbor Tidelands.

The Harbor Tidelands Enterprise Fund has a due from the Redevelopment Agency Debt Service Fund of \$211,937 for payments made by the Agency on the 1990 cooperation agreement in connection with the Harbor Center Project Area.

The Self-Insurance Program Internal Service Fund has a due from the General Fund of \$510,000 for the Recreation and Community Services Department relocation loan repayment.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

Long-Term Advances

The City had the following long-term advances as of June 30, 2011:

	Advances To Other Funds					Total
	Governmental Funds			Enterprise Funds		
	General Fund	RDA Special Revenue	Public Financing Authority	Harbor Tidelands	Harbor Uplands	
Advances From Other Funds						
Redevelopment Agency						
Debt Service Fund	\$ -	\$ 535,731	\$ 7,690,345	\$ 5,831,198	\$ 2,097,977	\$ 16,155,251
Public Financing Authority	1,345,656	-	-	-	-	1,345,656
	<u>\$ 1,345,656</u>	<u>\$ 535,731</u>	<u>\$ 7,690,345</u>	<u>\$ 5,831,198</u>	<u>\$ 2,097,977</u>	<u>\$ 17,500,907</u>

During the previous fiscal year, the City made a loan to the Authority for the internal refinancing of the remaining loan principal to repay First California Bank for the South Bay Bank loan. As of June 30, 2011, the amount owed on the loan was \$1,345,656.

During the current and previous fiscal year, the Agency's Low and Moderate Income Housing Special Revenue Fund loaned the Agency's Aviation High School Tax Increment Debt Service Fund monies for the purposes of paying the Agency's allocation of the Supplemental Education Revenue Augmentation Fund (SERAF) for fiscal years 2009-2010 and 2010-2011. As of June 30, 2011, the amount owed on those loans was \$535,731.

During the current and previous fiscal years, the Financing Authority has made loans to the Agency for various bonds. The Agency's balances as of June 30, 2011, were as follows:

1996 Revenue Bond	\$ 6,765,000
2001 Pier Refinancing Bond	925,345
Total	<u>\$ 7,690,345</u>

During the current and previous fiscal years, the City has made loans to the 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 within the next fiscal year. As of June 30, 2011, loans and accrued unpaid interest owed on those loans were \$7,929,175.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

Transfers

The City had the following transfers as of June 30, 2011:

		Transfers In						Total
		General Fund	Affordable Housing Fund	Capital Improvement Projects	Non-Major Governmental Funds	Transit Enterprise Fund	Internal Service Funds	
Transfers Out	General Fund	\$ -	\$ -	\$ 1,442,990	\$ 822,757	\$ -	\$ 865,716	\$ 3,131,463
	Redevelopment Agency - Special Revenue Fund	-	10,363,523	-	-	-	-	10,363,523
	Other Intergovernmental Grants Fund	-	-	-	15,000	-	-	15,000
	Capital Improvement Projects Fund	1,486,750	-	-	-	-	-	1,486,750
	Non-Major Governmental Funds	-	-	-	-	837,345	-	837,345
	Enterprise Funds:							
	Harbor Tidelands	79,000	-	-	-	-	-	79,000
	Internal Service Funds	2,554,880	-	510,000	66,514	-	-	3,131,394
	Total	<u>\$ 4,120,630</u>	<u>\$ 10,363,523</u>	<u>\$ 1,952,990</u>	<u>\$ 904,271</u>	<u>\$ 837,345</u>	<u>\$ 865,716</u>	<u>\$ 19,044,475</u>

The General Fund transferred out a total of \$3,131,463 to various funds consisting of \$1,442,990 to fund future capital improvement projects in the Capital Improvement Projects Fund, \$822,757 to cover expenditures in the Street Landscaping and Lighting District Non-major governmental fund, \$510,000 to the Self-Insurance Program Internal Service Fund for the Recreation and Community Services Department relocation loan repayment, and \$355,716 to the Vehicle Replacement Internal Service Fund for mid-year budgeted transfers.

The Redevelopment Agency Special Revenue Fund transferred out a total of \$10,363,523 to transfer assets from the Agency to the City based on a cooperation agreement related to affordable housing.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

The Other Intergovernmental Grants Fund transferred out \$15,000 to the Street Landscaping and Lighting District Non-major governmental fund for the street median retrofit program grant.

The Capital Improvement Projects Fund transferred out a total of \$1,486,750 to the General Fund consisting of \$186,750 to fund capital improvement projects and \$1,300,000 to return funds not needed for fiscal year 2010-2011 capital improvement projects.

Transfers were made within Non-major governmental funds of \$837,345 which consisted of Proposition A revenues to cover Transit Enterprise Fund expenditures.

Transfers between the Harbor Tidelands Enterprise Fund and the General Fund of \$79,000 were for the property tax in lieu fee.

The Internal Service Funds transferred out a total of \$3,131,394 to various funds consisting of \$2,554,880 to the General Fund to return funds not needed due to the purchase of only high priority vehicles and designation of unspent funds for future unfunded employee retirement costs, \$66,514 for the transfer of handyperson vehicle to the Community Development Block Grant Non-major governmental fund, and \$510,000 to the Capital Improvement Projects Fund for the Recreation and Community Services Department relocation costs.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS

The City elected to use the “Modified Approach” as defined by GASB Statement No. 34 for infrastructure reporting for its street pavement system. As a result, no accumulated depreciation or depreciation expense has been recorded for this system. A more detailed discussion of the “Modified Approach” is presented in the Required Supplementary Information section of this report. All other capital assets including other infrastructure systems were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

A. Government-Wide Financial Statements

At June 30, 2011, the City’s capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 16,522,947	\$ 11,323,255	\$ 27,846,202
Construction in progress	4,442,544	-	4,442,544
Work in progress	1,003,491	-	1,003,491
Infrastructure - streets	54,054,036	-	54,054,036
Total non-depreciable assets	<u>76,023,018</u>	<u>11,323,255</u>	<u>87,346,273</u>
Depreciable assets:			
Buildings and improvements	43,430,667	28,006,415	71,437,082
Furniture and equipment	8,427,486	648,679	9,076,165
Automotive equipment	9,567,269	3,148,105	12,715,374
Leased equipment	1,208,735	-	1,208,735
Infrastructure	71,917,974	23,532,843	95,450,817
Total depreciable assets	<u>134,552,131</u>	<u>55,336,042</u>	<u>189,888,173</u>
Less accumulated depreciation:			
Buildings and improvements	(14,879,753)	(14,036,339)	(28,916,092)
Furniture and equipment	(6,110,572)	(640,425)	(6,750,997)
Automotive equipment	(6,545,130)	(1,570,735)	(8,115,865)
Leased equipment	(359,009)	-	(359,009)
Infrastructure	(41,486,846)	(10,139,601)	(51,626,447)
Total accumulated depreciation	<u>(69,381,310)</u>	<u>(26,387,100)</u>	<u>(95,768,410)</u>
Total depreciable assets, net	<u>65,170,821</u>	<u>28,948,942</u>	<u>94,119,763</u>
Total capital assets	<u>\$ 141,193,839</u>	<u>\$ 40,272,197</u>	<u>\$ 181,466,036</u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	Balance July 1, 2010	Prior Period Adjustment (Note 17)	Additions	Deletions	Reclassifications	Balance June 30, 2011
Non-depreciable assets:						
Land	\$ 16,522,947	\$ -	\$ -	\$ -	\$ -	\$ 16,522,947
Construction in progress	3,654,123	-	4,241,423	-	(3,453,002)	4,442,544
Work in progress	1,003,491	-	-	-	-	1,003,491
Infrastructure - streets	54,054,036	-	-	-	-	54,054,036
Total non-depreciable assets	75,234,597	-	4,241,423	-	(3,453,002)	76,023,018
Depreciable assets:						
Buildings and improvements	38,780,752	-	1,196,913	-	3,453,002	43,430,667
Furniture and equipment	9,058,064	(814,629)	226,947	(42,896)	-	8,427,486
Automotive equipment	12,015,025	(1,934,755)	110,387	(623,388)	-	9,567,269
Leased equipment	55,051	-	1,153,684	-	-	1,208,735
Infrastructure	69,118,022	-	2,813,160	(13,208)	-	71,917,974
Total depreciable assets	129,026,914	(2,749,384)	5,501,091	(679,492)	3,453,002	134,552,131
Less accumulated depreciation:						
Buildings and improvements	(13,839,481)	-	(1,040,272)	-	-	(14,879,753)
Furniture and equipment	(6,292,161)	605,132	(466,439)	42,896	-	(6,110,572)
Automotive equipment	(6,884,688)	478,152	(755,807)	617,213	-	(6,545,130)
Leased equipment	(33,030)	-	(325,979)	-	-	(359,009)
Infrastructure	(39,448,098)	-	(2,051,956)	13,208	-	(41,486,846)
Total accumulated depreciation	(66,497,458)	1,083,284	(4,640,453)	673,317	-	(69,381,310)
Total depreciable assets, net	62,529,456	(1,666,100)	860,638	(6,175)	3,453,002	65,170,821
Governmental activities capital assets, net	\$ 137,764,053	\$ (1,666,100)	\$ 5,102,061	\$ (6,175)	\$ -	\$ 141,193,839

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense was charged to functions/programs of governmental activities for the fiscal year ended June 30, 2011 as follows:

Governmental Activities:	
General government	\$ 157,865
Public safety	184,450
Public works	2,899,530
Culture and leisure services	177,870
Housing and community development	9,554
Internal Service Funds:	
Vehicle Replacement	703,362
Building Occupancy	3,139
Information Technology	415,001
Printing and Graphics	19,266
Communications Equipment Replacement	70,416
Total depreciation expense	<u><u>\$ 4,640,453</u></u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of changes in the capital assets for business-type activities for the year ended June 30, 2011:

	Balance July 1, 2010	Prior Period Adjustment (Note 17)	Additions	Deletions	Balance June 30, 2011
Non-depreciable assets:					
Land	\$ 11,323,255	\$ -	\$ -	\$ -	\$ 11,323,255
Total non-depreciable assets	11,323,255	-	-	-	11,323,255
Depreciable assets:					
Buildings and improvements	27,969,309	-	37,106	-	28,006,415
Furniture and equipment	648,679	-	-	-	648,679
Automotive equipment	362,019	2,749,384	36,702	-	3,148,105
Infrastructure	23,480,306	-	52,537	-	23,532,843
Total depreciable assets	52,460,313	2,749,384	126,345	-	55,336,042
Less accumulated depreciation:					
Buildings and improvements	(13,418,724)	-	(617,615)	-	(14,036,339)
Furniture and equipment	(637,724)	-	(2,701)	-	(640,425)
Automotive equipment	(248,170)	(1,083,284)	(239,281)	-	(1,570,735)
Infrastructure	(9,835,587)	-	(304,014)	-	(10,139,601)
Total accumulated depreciation	(24,140,205)	(1,083,284)	(1,163,611)	-	(26,387,100)
Total depreciable assets, net	28,320,108	1,666,100	(1,037,266)	-	28,948,942
Business-type activities capital assets, net	\$ 39,643,363	\$ 1,666,100	\$ (1,037,266)	\$ -	\$ 40,272,197

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense for business-type activities for the fiscal year ended June 30, 2011 was charged as follows:

Harbor Tidelands	\$ 446,391
Harbor Uplands	278,144
Wastewater	204,736
Solid Waste	4,672
Transit	229,668
Total depreciation expense	<u><u>\$ 1,163,611</u></u>

B. Fund Financial Statements

In the governmental fund financial statements, capital assets are not presented. Consequently, capital assets are a reconciling item and are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

7. COMPENSATED ABSENCES PAYABLE

The following is a summary of compensated absences payable transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
Governmental Activities:						
Compensated absences payable	\$ 2,579,327	\$ 4,016,551	\$ (3,962,547)	\$ 2,633,331	\$ 18,889	\$ 2,614,442
Business-Type Activities:						
Compensated absences payable	305,798	639,859	(636,595)	309,062	21,219	287,843
Total	<u><u>\$ 2,885,125</u></u>	<u><u>\$ 4,656,410</u></u>	<u><u>\$ (4,599,142)</u></u>	<u><u>\$ 2,942,393</u></u>	<u><u>\$ 40,108</u></u>	<u><u>\$ 2,902,285</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 the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
Governmental Activities:						
PFA 2001 Refunding Revenue Bonds	\$ 2,010,000	\$ -	\$ (135,000)	\$ 1,875,000	\$ 135,000	\$ 1,740,000
PFA 2008 Refunding Revenue Bonds	6,690,000	-	(590,000)	6,100,000	615,000	5,485,000
Unamortized bond premium	170,895	-	(18,989)	151,906	18,989	132,917
County Deferral Loans	13,840,146	301,197	(52,554)	14,088,789	-	14,088,789
Capital Leases	20,686	1,090,346	(223,828)	887,204	266,863	620,341
Total governmental activities	\$ 22,731,727	\$ 1,391,543	\$ (1,020,371)	\$ 23,102,899	\$ 1,035,852	\$ 22,067,047
Business-Type Activities:						
Wastewater Revenue Bond 2004, Series A	\$ 9,175,000	\$ -	\$ (215,000)	\$ 8,960,000	\$ 225,000	\$ 8,735,000
Unamortized bond discount	(56,980)	-	2,375	(54,605)	(2,374)	(52,231)
Boating and Waterways						
Construction Loan 88-21-84	1,023,048	-	(83,255)	939,793	87,002	852,791
Boating and Waterways						
Construction Loan 89-21-147	2,443,872	-	(176,566)	2,267,306	184,511	2,082,795
Total business-type activities	\$ 12,584,940	\$ -	\$ (472,446)	\$ 12,112,494	\$ 494,139	\$ 11,618,355

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

Public Financing Authority 2001 Refunding Revenue Bonds

The Financing 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 Financing Authority to the Agency pursuant to a loan agreement (Loan), dated November 1, 2001, by and between the Financing Authority and Agency. The proceeds of the Loan are used to provide funds to refinance certain redevelopment activities of the Agency within or benefit of 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, 2011, the balance outstanding was \$1,875,000.

The interest on the bonds was payable at a fixed interest rate until September 2, 2006 and then converted to an adjustable interest rate. The interest rate as of June 30, 2010 was 0.33%. 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, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 135,000	\$ 2,063	\$ 137,063
2013	140,000	1,909	141,909
2014	150,000	1,760	151,760
2015	155,000	1,595	156,595
2016	160,000	1,425	161,425
2017-2021	875,000	4,389	879,389
2022-2023	260,000	358	260,358
Total	\$ 1,875,000	\$ 13,497	\$ 1,888,497

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

Public Financing Authority 2008 Refunding Revenue Bonds

The Financing Authority issued refunding revenue bonds dated January 2008, totaling \$7,645,000. The proceeds of the bonds were used to refund the Financing Authority's 1996 Revenue Bonds and pay the costs of issuance of the bonds. As of June 30, 2011, the balance outstanding was \$6,100,000, with an unamortized premium of \$151,906.

The Bonds shall bear interest at rates between 3.00% and 4.00% and 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, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 615,000	\$ 231,700	\$ 846,700
2013	640,000	206,600	846,600
2014	665,000	180,500	845,500
2015	695,000	153,300	848,300
2016	715,000	125,100	840,100
2017-2019	2,770,000	204,200	2,974,200
Total	\$ 6,100,000	\$ 1,101,400	\$ 7,201,400

The following is a summary of the 2008 Refunding Revenue unamortized premium outstanding at June 30, 2011:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
\$ 170,895	\$ -	\$ (18,989)	\$ 151,906

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

For the 2001 and 2008 Refunding Bonds, 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 \$9,089,897. 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 \$2,863,270 and \$715,817, respectively. Principal and interest paid for the current year and total tax increment revenues were \$1,069,533 and \$3,579,087, respectively, 29.88%.

County Deferral Loans

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
1983 Tax Increment Deferral	\$ 6,986,973	\$ -	\$ (52,554)	\$ 6,934,419
1984 Tax Increment Deferral	6,853,173	301,197	-	7,154,370
Total	\$ 13,840,146	\$ 301,197	\$ (52,554)	\$ 14,088,789

1983 Tax Increment Deferral - On November 15, 1983, the Agency and the County of Los Angeles (County) entered into an agreement for reimbursement of tax increment funds. It was recognized that the South Bay Center 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 and is non-interest bearing. The balance outstanding at June 30, 2011, was \$6,934,419.

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 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 and is non-interest bearing. The balance outstanding at June 30, 2011, was \$7,154,370.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

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. The related assets have been capitalized in the government-wide financial statements at the initial present value of the lease payments. The balance outstanding at June 30, 2011, was \$887,204.

The total leased assets by major asset class consisted of the following:

	<u>June 30, 2011</u>
Equipment	<u>\$ 1,208,735</u>
Equipment under capitalized lease, at cost	1,208,735
Accumulated depreciation	<u>(359,009)</u>
Equipment under capitalized lease, net	<u><u>\$ 849,726</u></u>

The annual debt service requirements outstanding at June 30, 2011 were as follows:

<u>For the Years</u> <u>Ending June 30,</u>	<u>Payment</u> <u>Amount</u>
2012	\$ 266,863
2013	263,576
2014	272,970
2015	<u>83,795</u>
Total	<u><u>\$ 887,204</u></u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

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 Fund. 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 Fund. As of June 30, 2011, the balance outstanding was \$8,960,000, with an unamortized bond discount of \$54,605. Principal and interest paid for the current year and total revenues for the Wastewater Fund were \$674,650 and \$2,536,165, respectively, 26.60%.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 225,000	\$ 435,963	\$ 660,963
2013	235,000	426,963	661,963
2014	245,000	417,269	662,269
2015	255,000	406,856	661,856
2016	265,000	395,700	660,700
2017-2021	1,525,000	1,781,125	3,306,125
2022-2026	1,935,000	1,368,250	3,303,250
2027-2031	2,475,000	833,750	3,308,750
2032-2034	1,800,000	183,000	1,983,000
Total	\$ 8,960,000	\$ 6,248,876	\$ 15,208,876

The following is a summary of the 2004 Revenue Bond Series A unamortized discount outstanding at June 30, 2011:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
\$ (56,980)	\$ -	\$ 2,375	\$ (54,605)

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

Boating and Waterways Construction Loan 88-21-84

On July 25, 1988, the City entered into a \$2,000,000 loan agreement with the California Department of Boating and Waterways (Contract No. 88-21-84). Proceeds of the loan were used to finance harbor dredging, storm recovery repairs and hazard-mitigation projects. The loan bears interest at 4.5%. As of June 30, 2011, the balance outstanding was \$939,793.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 87,002	\$ 42,291	\$ 129,293
2013	90,917	38,376	129,293
2014	95,009	34,284	129,293
2015	99,284	30,009	129,293
2016	103,752	25,541	129,293
2017-2020	463,829	53,327	517,156
Total	\$ 939,793	\$ 223,828	\$ 1,163,621

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

8. LONG-TERM DEBT, Continued

Boating and Waterways Construction Loan 89-21-147

In 1989, the City entered into a \$4,500,000 construction loan agreement with the California Department of Boating and Waterways (Contract No. 89-21-147) at an interest rate of 4.5%. Proceeds of the loan were used to finance the City's cost-sharing obligations in connection with the Federal breakwater improvement program, storm repairs and hazard-mitigation projects. As of June 30, 2011, the balance outstanding was \$2,267,306.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 184,511	\$ 102,029	\$ 286,540
2013	192,814	93,726	286,540
2014	201,491	85,049	286,540
2015	210,558	75,982	286,540
2016	220,033	66,507	286,540
2017-2021	1,257,899	174,794	1,432,693
Total	\$ 2,267,306	\$ 598,087	\$ 2,865,393

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 Agency, the State of California or any political subdivision thereof, is pledged for payment of these bonds.

	Original Amount	Outstanding June 30, 2011
A. Multifamily Housing Revenue Bonds <i>/Notes Heritage Pointe Project:</i>		
Series 2004A	\$ 11,390,000	\$ 10,890,000
B. Multifamily Housing Revenue Refunding <i>Bonds / SEASONS at Redondo Beach</i>		
Series 2008A	\$ 6,425,000	\$ 4,741,774

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

10. OPERATING LEASES

A. Harbor Tidelands and Uplands Enterprise Operating Leases

The Harbor Uplands Enterprise Fund 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 Tidelands and Harbor Uplands Enterprise Funds operate as landlords, 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 Tidelands and Uplands Enterprise Funds arises from long-term leases of land, pier space, waterways and other facilities which 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 \$871,637 for those assets giving a carrying amount of \$9,535,258 at June 30, 2011.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

10. OPERATING LEASES, Continued

A. Harbor Tidelands and Uplands Enterprise Operating Leases, Continued

The following is a schedule, by year, of minimum future lease rentals on non-cancellable operating leases as of June 30, 2011:

Year Ending June 30,	Minimum Future Lease Rentals
2012	\$ 3,237,069
2013	3,053,410
2014	3,053,410
2015	3,269,410
2016	3,281,410
2017-2021	15,830,298
2022-2026	13,422,706
2027-2031	11,549,666
2032-2036	9,928,824
2037-2041	9,973,302
2042-2046	8,262,582
2047-2051	6,862,902
2052-2056	6,862,902
2057-2061	6,862,902
2062-2066	1,772,657
2067-2069	468,000
Total	\$ 107,691,450

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

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

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, AdminSure. The self-insurance coverage for each claim is limited to \$750,000. Excess coverage of up to \$5,000,000 for each claim is provided by the Independent Cities Risk Management Authority (ICRMA), an insurance pool, in which a consortium of cities has agreed to share risks and losses. As of June 30, 2011, the estimated claims payable for workers' compensation was \$11,803,030, which included claims incurred but not reported (IBNR) of \$7,609,368. The current year's portion of the claims was \$651,113.

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, AdminSure. Each claim in excess of the self-insured retention of up to \$2,000,000 is covered by the ICRMA. There is also excess coverage in the amount of \$18 million.

As of June 30, 2011, the estimated claims payable for general liability was \$3,101,374, which included Incurred But Not Reported (IBNR) estimates of \$1,023,251. The current year's portion was \$91,730. Governmental activities claims and judgments are generally liquidated by the general fund.

	Liability on June 30, 2011
General Liability	\$ 3,101,374
Workers' Compensation	11,803,030
Total	<u>\$ 14,904,404</u>

Settled claims have not exceeded any of the City's coverage amounts in any of the last three fiscal years and there were 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.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

11. RISK MANAGEMENT, Continued

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
2009	\$ 17,441,721	\$ 620,390	\$ (1,898,488)	\$ 16,163,623	\$ 2,690,237	\$ 13,473,386
2010	16,163,623	521,697	(3,231,006)	13,454,314	2,988,028	10,466,286
2011	13,454,314	312,812	1,137,278	14,904,404	742,843	14,161,561

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.

Condensed Financial Information of the ICRMA

Condensed audited financial information of ICRMA as of June 30, 2011 (most recent information available) is as follows:

Assets	Total
	\$ 59,190,967
Liabilities of member cities	\$ 26,400,993
Net assets	32,789,974
Total liabilities and net assets	\$ 59,190,967
Revenues	\$ 23,270,487
Cost and expenses	21,743,908
Net income	1,526,579
Net assets - July 1, 2010	31,263,395
Net assets - June 30, 2011	\$ 32,789,974

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

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.

Funding Policy - Active plan members are required by State statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The City, as employer, makes the contributions required of City employees on their behalf and for their account, which amounted to \$2,583,831 for the year ended June 30, 2011. The City is required to contribute for fiscal year 2010-2011 at an actuarially determined rate of 11.804% and 32.713% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost - For 2010-2011, the City's annual pension cost of \$9,646,142 for PERS was equal to the City's required and actual contributions. 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) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. 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 32 years for safety employees for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	10,576,990	100%	\$ -
6/30/10	10,024,453	100%	-
6/30/11	9,646,142	100%	-

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

12. EMPLOYEE RETIREMENT PLANS, Continued

A. Pension Plan, Continued

Funding Status as of the Most Recent Actuarial Date:

The amounts reflected herein represent the City's portion as reported by CalPERS.

<u>Safety Plan</u>						
	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2010	\$ 209,481,432	\$ 259,321,750	\$ 49,840,318	80.8%	\$ 15,615,232	319.2%

<u>Miscellaneous Plan</u>						
	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2010	\$ 124,366,166	\$ 141,617,233	\$ 17,251,067	87.8%	\$ 19,612,331	88.0%

* Most recent information available

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

12. EMPLOYEE RETIREMENT PLANS, Continued

B. Other Post Employment Benefits

Plan Descriptions and Eligibility. In addition to the pension benefits described above, the City provides certain health insurance benefits, in accordance with memorandums of understanding, to retired employees through the California Employers' Retiree Benefit Trust (CERBT) Fund, which is an agent multiple-employer plan administered by CalPERS. 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. At June 30, 2011, approximately 106 employees are eligible to receive post-employment benefits.

Funding Policy. The required contribution of the City is based on a percentage of PERSable payroll. For fiscal year 2011, the City contributed \$1,427,060 to the plan.

Annual OPEB Cost and Net OPEB Obligation. The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB Obligation to the Plan:

	<u>Total</u>
Annual required contribution	\$ 1,427,060
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,427,060</u>
Contributions made	<u>(1,427,060)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

12. EMPLOYEE RETIREMENT PLANS, Continued

B. Other Post Employment Benefits, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 1,427,060	\$ 1,427,060	100.0%	\$ -

Funded Status and Funding Progress. As of June 30, 2010, the most recent actuarial valuation date, the plan was 10.7 percent funded. The Actuarial Accrued Liability for benefits was \$17,882,000, and the actuarial value of assets was \$1,918,000, resulting in an UAAL of \$15,964,000. The covered payroll (annual payroll of active employees covered by the plan) was \$31,700,000 and the ratio of UAAL to the covered payroll was 50.36%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend rate. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The table below shows a one-year analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2010.

	(A)	(B)	(C)	(D)	(E)	(F)
	Actuarial Asset Value Date	Actuarial Accrued Liability Entry Age	(Unfunded) Actuarial Accrued Liability (A - B)	Funded Ratio (A / B)	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll (C / E)
	(A)	(B)	(A - B)	(A / B)		(C / E)
6/30/2010	\$ 1,918,000	\$ 17,882,000	\$ (15,964,000)	10.7%	\$ 31,700,000	50.36%

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

12. EMPLOYEE RETIREMENT PLANS, Continued

B. Other Post Employment Benefits, Continued

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 7.75% investment rate of return which is based on the expected return on funds invested by CalPERS, and an annual healthcare cost trend rate of 9.5% initially, which is reduced over nine years to an ultimate rate of 5.0% for 2021 and thereafter. The actuarial assumption for inflation was 3 percent, and the aggregate payroll increases was 3.25 percent used in the actuarial valuation. The initial UAAL from June 30, 2006 valuation is being amortized as level percentage of projected payroll over a 30 year closed period (26 years remaining for fiscal year 2012/2013). Subsequent increases/decreases in UAAL due to actuarial gains/losses or changes in assumptions or methods are amortized over 15 year closed periods. The average remaining amortization period may be no more than 30 years.

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.

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are subject to audit. No cost disallowance is expected as a result of any audits. Expenditures which 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. Commitments

As of June 30, 2011, in the opinion of City management, there were no outstanding matters that would have a significant effect on the financial position of the funds of the City.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

13. COMMITMENTS AND CONTINGENCIES, Continued

D. Contingencies

The Regional Water Quality Control Board (RWQCB) has filed regulatory Notice of Violations against the City regarding issues with Seaside Lagoon water quality discharges to the harbor. The RWQCB granted the City a moratorium on the water quality discharge standards. Thus, at this time, potential fines, assessments, and settlements are currently estimated to be \$0.

The RWQCB has filed regulatory Notice of Violations against the City regarding issues with storm drain water quality discharges to the ocean. As the RWQCB has granted the City's request for an abeyance to ascertain jurisdictional issues, any potential fines, assessments, and settlements are currently estimated to be \$0.

14. POLLUTION REMEDIATION OBLIGATIONS

The Department of Toxic Substances Control (DTSC) has filed regulatory Notice of Violations against the City regarding the Redondo Beach Police Department's gun range concerning issues with lead bullet fragments. Cleanup, potential fines, assessments, and settlements incurred by the City to date are approximately \$96,000. Cleanup is expected to be completed in fiscal year 2011-2012 with additional cleanup and settlements currently estimated to be \$150,000. This liability has been accrued in the General Fund.

15. DECLARATION OF FISCAL EMERGENCY

On August 4, 2009, the City declared a fiscal emergency. The City had faced an approximate \$5.5 million General Fund operating deficit for the 2009-2010 fiscal year due to the unprecedented downturn in the national and regional economies. The City declared another fiscal emergency on June 22, 2010 for the 2010-2011 fiscal year and also declared another fiscal emergency on June 28, 2011 for the 2011-2012 fiscal year. The City projected an approximate \$3.8 million General Fund operating deficit for the 2011-12 fiscal year. The City Council instituted in fiscal year 2010-11 various austerity measures including a flexible hiring freeze, employee concessions, full-time position deauthorizations, a reduction in capital investments, and a return of capital project funding. The fiscal year 2011-12 budget balancing is based on requesting continued employee compensation concessions, a drawdown on the PERS set-aside fund, and minor revenue enhancements. The City Council, through passage of the resolutions declaring a fiscal emergency, determined that immediate and comprehensive action must be taken to ensure, to the maximum extent possible, that the essential services of the City are not jeopardized.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

16. CLASSIFICATION OF FUND BALANCES

The City has adopted the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification.

	General Fund	Special Revenue			Capital Projects	Debt Service		Nonmajor Governmental Funds	Total Governmental Funds
		Other Intergovernmental Grants	Redevelopment Agency	Affordable Housing	Capital Improvement Projects	Public Financing Authority	Redevelopment Agency		
Nonspendable									
Prepaid costs	\$ 23,335	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,012	\$ 24,347
Notes and loans receivable	143,700	-	-	-	-	-	-	-	143,700
Total nonspendable	<u>167,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,012</u>	<u>168,047</u>
Restricted									
Debt service	-	-	-	-	-	8,107,706	-	5,662	8,113,368
Public safety	-	-	-	-	-	-	-	1,124,089	1,124,089
Public works	-	-	-	-	-	-	-	810,704	810,704
Low & moderate income housing	-	-	2,894,458	-	-	-	-	-	2,894,458
Affordable housing	-	-	-	10,363,523	-	-	-	-	10,363,523
Housing and community development	-	-	-	-	-	-	-	6,583,825	6,583,825
Total restricted	<u>-</u>	<u>-</u>	<u>2,894,458</u>	<u>10,363,523</u>	<u>-</u>	<u>8,107,706</u>	<u>-</u>	<u>8,524,280</u>	<u>29,889,967</u>
Committed									
Contingency	5,595,596	-	-	-	-	-	-	-	5,595,596
Total committed	<u>5,595,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,595,596</u>
Assigned									
Capital improvement projects	1,000,000	-	-	-	1,645,977	-	-	1,019,856	3,665,833
General government	718,165	-	-	-	-	-	-	-	718,165
Public safety	19,533	-	-	-	-	-	-	-	19,533
Housing and community development	45,181	-	-	-	-	-	-	-	45,181
Cultural and leisure services	510,000	-	-	-	-	-	-	-	510,000
Public works	90,604	-	-	-	-	-	-	-	90,604
Carryover assignments	1,283,994	-	-	-	-	-	-	-	1,283,994
Compensated absences	1,088,635	-	-	-	-	-	-	-	1,088,635
Self-insurance program	350,000	-	-	-	-	-	-	-	350,000
CalPERS	2,785,716	-	-	-	-	-	-	-	2,785,716
Total assigned	<u>7,891,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,645,977</u>	<u>-</u>	<u>-</u>	<u>1,019,856</u>	<u>10,557,661</u>
Unassigned	<u>-</u>	<u>(3,027,926)</u>	<u>-</u>	<u>-</u>	<u>3,040,646</u>	<u>-</u>	<u>(15,046,266)</u>	<u>(178,167)</u>	<u>(15,211,713)</u>
Total fund balance	<u>\$ 13,654,459</u>	<u>\$ (3,027,926)</u>	<u>\$ 2,894,458</u>	<u>\$ 10,363,523</u>	<u>\$ 4,686,623</u>	<u>\$ 8,107,706</u>	<u>\$ (15,046,266)</u>	<u>\$ 9,366,981</u>	<u>\$ 30,999,558</u>

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

17. PRIOR PERIOD ADJUSTMENT

A. Government-Wide Financial Statements

The City recorded the following prior-period adjustments in the Government-Wide Financial Statements. The adjustments occurred because of the reclassification of the transit activities from a Special Revenue Fund to an Enterprise Fund due to the adoption and implementation of GASB 54. Adjustments to the Governmental Activities include the \$1,603,370 reduction of Net Assets. Adjustments to the Business-Type Activities include an increase of \$1,603,370 of Net Assets. Accordingly, the net assets as of July 1, 2010, have been restated as follows:

Government-Wide Financial Statements	Net Assets, as Previously Reported	Prior Period Adjustments	Net Assets, As Restated
Governmental Activities:			
Net assets	\$ 153,730,052	\$ (1,603,370)	\$ 152,126,682
Total governmental activities	153,730,052	(1,603,370)	152,126,682
Business-Type Activities:			
Net assets	61,536,841	1,603,370	63,140,211
Total business-type activities	61,536,841	1,603,370	63,140,211
Total government-wide	\$ 215,266,893	\$ -	\$ 215,266,893

B. Funds Financial Statements

The City recorded the following prior-period adjustment in the Funds Financial Statements. The adjustment to the Proprietary Funds includes a \$1,666,100 addition in Capital Assets in the Transit Enterprise Fund. The adjustment occurred because of the reclassification of the transit activities from a Special Revenue Fund to an Enterprise Fund. Accordingly, the net assets as of July 1, 2010, have been restated as follows:

Proprietary Funds	Net Assets, as Previously Reported	Prior Period Adjustments Capital Assets	Net Assets, As Restated
Transit Fund	\$ (62,730)	\$ 1,666,100	\$ 1,603,370
Total	\$ (62,730)	\$ 1,666,100	\$ 1,603,370

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

18. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Redondo Beach intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011. In compliance with this ruling, the appeal of the determination of the community remittance payment for fiscal year 2011-2012 was filed on August 11, 2011 and was subsequently approved by the Department of Finance on October 14, 2011. The Agency adopted their EOPS on August 23, 2011 by Resolution No. 597, and the Agency prepared their ROPS on September 20, 2011 by Resolution No. 598.

City of Redondo Beach
Notes to the Financial Statements, Continued
For the year ended June 30, 2011

18. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, 2011, as required by the statute. Enforceable obligations include bonds, loans, and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill X1 26.

On September 6, 2011, City Ordinance No. 3084-11 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$843,985 with one half due on January 15, 2012 and the other half due May 15, 2012. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill X1 26.