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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redondo Beach, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. Therefore, as of February 1, 2012, the Redevelopment Agency of the City of Redondo Beach, a component unit of the City ceased to exist. All functions, of the former redevelopment agency either passed to the City or to the Successor Agency of the Redondo Beach Redevelopment Agency.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 on our consideration of the City of Redondo Beach, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules, and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rogers Anderson Maloney & Scott, LLP

December 13, 2012

CITY OF REDONDO BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Redondo Beach (the "City") provides the Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net assets, changes in net assets, and fund disclosures are discussed in more detail later in the report.

Financial Highlights - Primary Government

- ♦ *Government-Wide Highlights*

Net Assets - Assets of the City exceeded its liabilities at fiscal year ending June 30, 2012 by \$242.1 million - assets for governmental activities exceeded liabilities by \$183.0 million and assets for business-type activities exceeded liabilities by \$59.6 million.

Changes in Net Assets - The City's net assets increased \$22.1 million in fiscal year 2011-2012. Net assets of governmental activities increased \$24.8 million, while net assets of business-type activities decreased \$2.7 million.

- ♦ *Fund Highlights*

Governmental Funds - At the close of fiscal year 2011-2012, the City's total governmental funds reported a fund balance of \$40.1 million, an increase of \$9.1 million from the prior year. Highlighted below are this year's six-major funds included in this grouping.

General Fund - The fund balance of the General fund (includes Special Revenue – PERS Reserve Fund of \$4.0 million) on June 30, 2012 was \$13.4 million, a decrease of \$264,000. from the prior year.

Other Intergovernmental Grants Special Revenue Fund – The fund balance of the Special Revenue – Other Intergovernmental Grants Fund on June 30, 2012 was negative \$1.3 million, a decrease in the negative fund balance by \$1.71 million from the prior year.

Redevelopment Agency Special Revenue Fund – The fund balance of the Special Revenue – Redevelopment Agency Fund on June 30, 2012 had a zero, balance, a decrease of \$2.9 million from the prior year, a result of the state mandated dissolution of the Redevelopment Agency.

Low-Mod Income Housing Asset Fund - The Fund balance of the Low-Mod Income Housing Asset Fund on June 30, 2012 was \$3.4 million. As a result of the state mandated dissolution of the Redevelopment Agency this fund was created during FY 2011-12 and therefore, had no prior year balance.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2012, was \$7.4 million, a decrease of \$744,877 from the prior year.

Debt Service - Redevelopment Agency Fund - The fund balance of the Debt Service - Redevelopment Agency Fund on June 30, 2012, had a zero balance, an increase of \$15 million from prior year. Increase was due to required transfers as a result of the dissolution of the Redevelopment Agency during FY 2011-12.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

- ♦ *Statement of Net Assets*

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

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

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

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

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

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

Fund Financial Statements

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

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

- ♦ *Governmental Funds*

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

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

The City has 28 governmental funds, of which six are considered major funds for presentation purposes. Each major fund is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The City's six major funds are: General Fund, Other Intergovernmental Grants Special Revenue Fund, Redevelopment Agency Special Revenue, Low-Mod Income Housing Asset, Public Financing Authority Debt Service Fund, Redevelopment Agency Debt Service Fund. Data from the non-major governmental funds (e.g., State Gas Tax Fund, Local Transit Fund, Storm Drain Fund, Disaster Recovery Fund) are combined into a single, aggregated presentation. The governmental funds financial statements can be found on pages behind the tab section titled Fund Financial Statements. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages behind the tab section titled Non-Major Governmental Funds.

- ◆ *Proprietary Funds*

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

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

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

- ◆ *Fiduciary Funds*

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

Notes to the Financial Statements

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

Required Supplementary Information

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

City of Redondo Beach's Net Assets
Fiscal Year Ended June 30, 2011 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011
Asset						
Current and Other Assets	\$ 82,577,571	\$ 63,939,007	\$ 34,046,422	\$ 36,203,044	\$ 116,623,993	\$ 100,142,051
Capital Assets, net depre	143,933,767	141,193,839	40,159,444	40,272,197	184,093,211	181,466,036
Total assets	<u>226,511,338</u>	<u>205,132,846</u>	<u>74,205,866</u>	<u>76,475,241</u>	<u>300,717,204</u>	<u>281,608,087</u>
Liabilities						
Outstanding	24,743,229	40,640,634	11,971,704	12,421,556	36,714,933	53,062,190
Other Liabilities	19,233,339	6,738,720	2,660,186	1,782,357	21,893,525	8,521,077
Total Liabilities	<u>43,976,568</u>	<u>47,379,354</u>	<u>14,631,890</u>	<u>14,203,913</u>	<u>58,608,458</u>	<u>61,583,267</u>
Net Assets						
Investments in Capital Assets						
Net of Related Debt	143,049,826	140,306,635	31,235,358	34,790,325	174,285,184	175,096,960
Restricted	17,861,803	29,890,049	-	-	17,861,803	29,890,049
Unrestricted	21,623,137	(12,443,192)	28,338,618	27,481,003	49,961,755	15,037,811
Total Net Assets, as Restated	<u>\$ 182,534,770</u>	<u>\$ 157,753,492</u>	<u>\$ 59,573,976</u>	<u>\$ 62,271,328</u>	<u>\$ 242,108,746</u>	<u>\$ 220,024,820</u>

Total Assets:

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

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

Total Liabilities:

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

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

Net Assets

The chart above reflects the City's combined net assets (governmental and business-type activities) of \$242.1 million at the close of fiscal year ending June 30, 2012.

The largest portion of the City's total net assets (71.9%) reflects investment in capital assets (e.g., land, streets, sewers, buildings, machinery, and equipment) net of outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net assets (28.1%) represent resources that are either unrestricted or subject to external restrictions (e.g., certain capital projects, community development, debt services).

Changes in Net Assets

Also noted in the chart above, the City's fiscal year 2011-2012 total net assets increased by \$22.1 million, or 10.0%, from the prior year. The governmental activities net assets increased \$24.8 million, or 15.7%, while the business-type activities net assets decreased \$2.7 million, or 4.3%.

The increase in net assets of governmental activities of \$24.8 million was due to an increase in total assets of \$21.4 million. Within total assets, the increase in capital assets, net of accumulated depreciation, was primarily attributable to the transit bus-shelter and bench project, street light replacement on the Esplanade and LED Street Light Replacement, all of which are new capital assets with essentially no depreciation. These capital asset additions also resulted in a corresponding increase in Investments in Capital Assets, Net of Related Debt. The increase in net assets was offset by decrease in liabilities of \$3.4 million. Other liabilities, specifically accounts payable, increased mainly due to the timing of payments to vendors. Long-term outstanding liabilities, specifically claims and judgments payable decreased, due to reserves related to workers' compensation and general liability claims.. Business activities net assets decreased by \$2.7 million or 4.3%, the decrease was primarily due to the increase in construction expenses related to Seaside Lagoon rehabilitation and construction of the Harbor Patrol Facility Replacement Project as well as lower investment earnings.

**City of Redondo Beach's Changes in Net Assets
Fiscal Year ended June 30, 2011 and 2012**

	Governmental		Business-Type		Total	
	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011
Revenues:						
Program revenues:						
Charges for services	\$ 20,351,312	\$ 17,075,115	\$ 15,864,430	\$ 15,565,861	\$ 36,215,742	\$ 32,640,976
Operating grants and contributions	8,590,969	8,928,050	1,395,363	1,231,111	9,986,332	10,159,161
Capital grants and contributions	4,582,744	6,976,620	-	-	4,582,744	6,976,620
Total program revenues	<u>33,525,025</u>	<u>32,979,785</u>	<u>17,259,793</u>	<u>16,796,972</u>	<u>50,784,818</u>	<u>49,776,757</u>
General revenues:						
Property taxes	28,335,561	28,320,076	-	-	28,335,561	28,320,076
Sales taxes	9,594,901	8,902,151	-	-	9,594,901	8,902,151
Utilities users taxes	7,422,089	7,667,130	-	-	7,422,089	7,667,130
Motor vehicle license	33,693	310,907	-	-	33,693	310,907
Transient occupancy taxes	3,533,501	3,267,209	-	-	3,533,501	3,267,209
Franchise taxes	1,950,934	1,816,314	-	-	1,950,934	1,816,314
Business license taxes	1,203,591	1,240,024	-	-	1,203,591	1,240,024
Use of money and property	3,371,724	3,585,902	241,958	408,915	3,613,682	3,994,817
Other revenues	2,831,748	1,601,333	181,532	307,915	3,013,280	1,909,248
Gain (loss) on sale of capital asset	73,574	54,076	-	-	73,574	54,076
Total general revenues	<u>58,351,316</u>	<u>56,765,122</u>	<u>423,490</u>	<u>716,830</u>	<u>58,626,697</u>	<u>57,481,952</u>
Total revenue	<u>91,876,341</u>	<u>89,744,907</u>	<u>17,683,283</u>	<u>17,513,802</u>	<u>109,411,516</u>	<u>107,258,709</u>
Expenses:						
General government	8,560,957	7,951,800	-	-	8,560,957	7,951,800
Public safety	43,020,839	41,849,863	-	-	43,020,839	41,849,863
Public works	10,589,076	12,381,276	-	-	10,589,076	12,381,276
Cultural and leisure services	7,389,274	7,002,619	-	-	4,764,407	7,002,619
Housing and community development	13,822,831	13,159,622	-	-	16,299,594	13,159,622
Interest on long-term debt	637,624	1,014,572	-	-	637,624	1,014,572
AB 1484 demand payment	9,914,969	-	-	-	9,914,969	1,014,572
Harbor Tidelands	-	-	7,689,071	5,415,810	7,689,071	5,415,810
Harbor Uplands	-	-	3,952,061	4,571,399	3,952,061	4,571,399
Wastewater	-	-	3,196,442	2,476,972	3,196,442	2,476,972
Solid Waste	-	-	3,431,017	3,574,516	3,431,017	3,574,516
Transit	-	-	3,113,076	3,102,333	3,113,076	3,102,333
Total expenses	<u>93,935,570</u>	<u>83,359,752</u>	<u>21,381,667</u>	<u>19,141,030</u>	<u>115,317,237</u>	<u>103,515,354</u>
Change in net assets before transfers	<u>(2,207,337)</u>	<u>6,385,155</u>	<u>(3,698,384)</u>	<u>(1,627,228)</u>	<u>(5,905,721)</u>	<u>3,743,355</u>
Transfers	(1,017,605)	(758,345)	1,017,605	758,345	-	-
Extraordinary Item						
Gain (loss) on dissolution of Redevelopment Agency	27,858,112	-	-	-	27,858,112	-
Change in net assets	24,781,274	5,626,810	(2,680,779)	(868,883)	22,100,495	3,743,355
Net assets, beginning of year as restated	<u>157,753,492</u>	<u>152,126,682</u>	<u>62,254,755</u>	<u>63,140,211</u>	<u>220,008,247</u>	<u>215,266,893</u>
Net assets, end of year	<u>\$ 182,534,770</u>	<u>\$ 157,753,492</u>	<u>\$ 59,573,976</u>	<u>\$ 62,271,328</u>	<u>\$ 242,108,746</u>	<u>\$ 219,010,248</u>

Levels of revenues and expenditures also impact current assets and other liabilities and, therefore, cause changes in net assets. As reflected above, total revenues increased in fiscal year 2011-2012 by \$2.2 million, or 2.1%. Major increases in program revenues are reflected mainly in:

- ♦ charges for services due to an increase in rents and percentages in the Harbor Uplands Fund and growth in parking meter and structure fees, and increased rates for trash collection.
- ♦ general revenues increased primarily due to: sale of property at 900 North Pacific Coast Highway to Auto Nation (Land Rover), a substantial increase in sales tax, and moderate increases to transient occupancy tax and franchise taxes.

Increases were offset by decreases in UUT, motor vehicle license tax, business license tax and use of money and property. The substantial decrease in motor vehicle license tax is due to Senate Bill 89/Assembly Bill 118, enacted in 2011, which shifted vehicle license fee revenue to fund public safety programs that were previously State funded. UUT decreased due to reduced business activity caused by the continuing sluggish economy and energy savings from decreased consumption. The decrease in use of money and property is substantially due to the decline in investment earnings.

Citywide total expenses increased \$10.6 million, or 12.5%, when compared to fiscal year 2010-2011. The substantial increases in expenses for the harbor patrol facility rehabilitation, Riviera Village improvements, sewers facility rehabilitation, and seaside lagoon rehabilitation. The decrease in public works is due to reduced personnel costs, as well as reduced construction expenses related to the LED Streetlight Replacement project, Catalina Harbor Advanced Traffic Signal Management project, Aviation Gym Skylight project. Vehicle replacement costs also decreased, due to extended vehicle service years. Offsetting these decreases are increases in general government, public safety, and housing, community development expenses and AB 1484 demand payments resulted from the dissolution of Redevelopment Agency, as well as transfer of assets from the Redevelopment Agency to the general fund. Although personnel costs were lower resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions, these program expenses increased due to rises in PERS, workers' compensation and general liability claims. Increases in workers' compensation claims are attributable to an increase in reserves based on future legislation or ballot initiatives that may change statutory benefit levels and the outcomes of future administrative proceedings and litigation. Increases in general liability claims are attributable to higher reserves based on future legislation that may affect the tort liability system, and the outcomes of litigation and settlement negotiations primarily related to Seaside Lagoon water quality and the Police Department firing range.

Governmental Activities

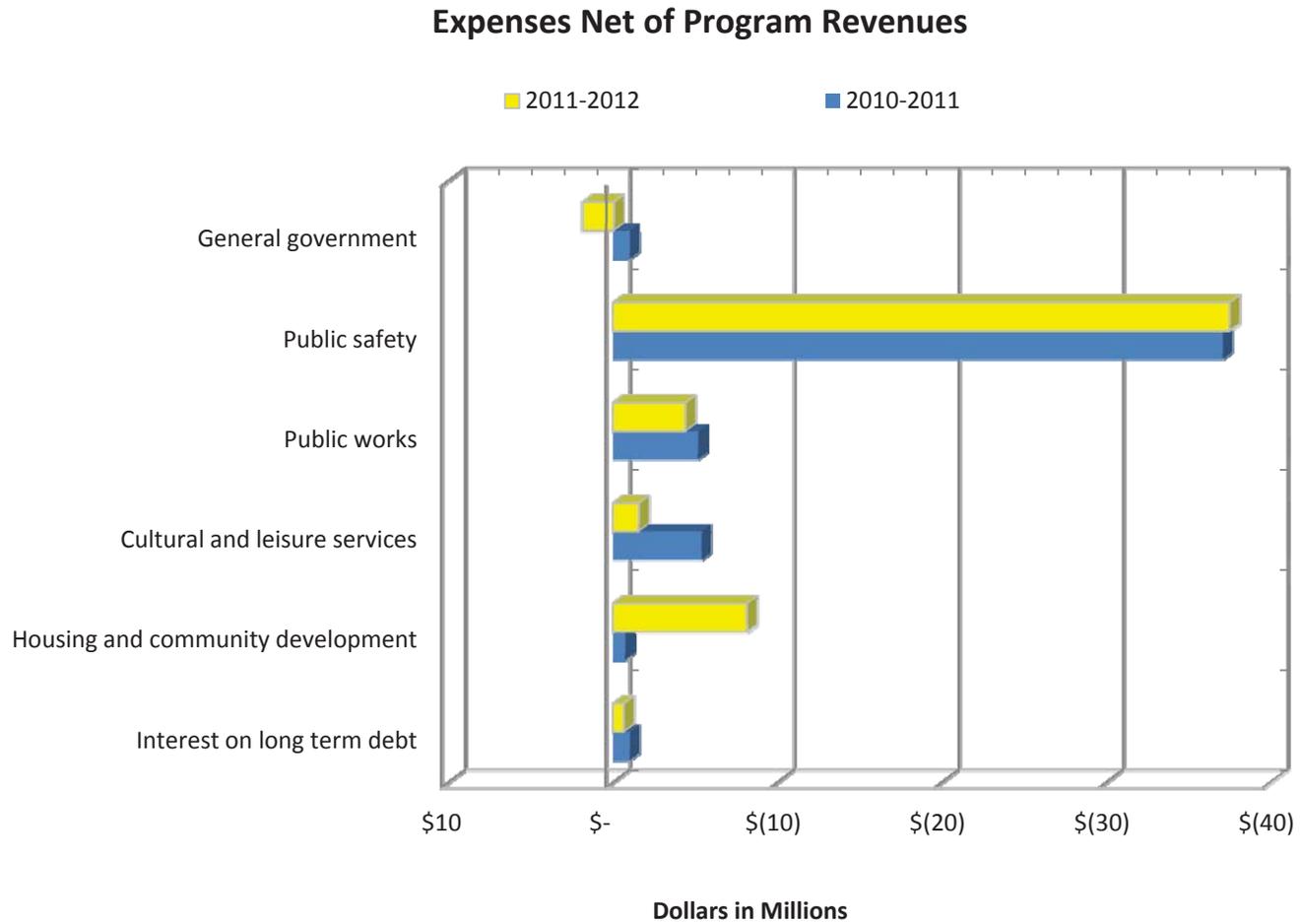
As reflected in the Changes in Net Assets schedule above, the total governmental activity expenses were \$94.0 million in fiscal year 2011-2012; and total revenues from governmental activities were \$91.8 million, of which 36.5% were derived from program revenues consisting of charges for services and grants.

On the following chart, governmental activity expenses net of program revenues, increased \$10.0 million, or 19.9%, in fiscal year 2011-2012. The major impact in FY2011-2012 is the Assembly Bill 1484 demand payment of \$9.9 million. If this amount were removed, net expenses of the governmental activities would be relatively flat when compared to prior year. In addition, the general government net expenses also increased due to the transfer of expenses from the Redevelopment Agency to the General Fund, a result of the State-mandated dissolution of the Redevelopment Agency.

Governmental Activities	Impact to Net Assets		Percent
	2011-2012	2010-2011	Increase (Decrease)
<i>Expenses Net of Program Revenues*</i>			
General Government	\$ 1,855,508	\$ (1,010,323)	-283.7%
Public Safety	(37,482,231)	(37,072,886)	1.1%
Public Works	(4,381,279)	(5,154,946)	-15.0%
Cultural and leisure services	(5,696,885)	(5,393,751)	5.6%
Housing and community services	(4,153,065)	(733,489)	N/M
Interest on long-term debt	(637,624)	(1,014,572)	-37.2%
AB 1484 demand payment	<u>(9,914,969)</u>	<u>-</u>	100.0%
<i>Total Governmental Activity Expenses Net of Program Revenues</i>	<u>(60,410,545)</u>	<u>(50,379,967)</u>	19.9%

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

The chart below is a graphical representation of the schedule above

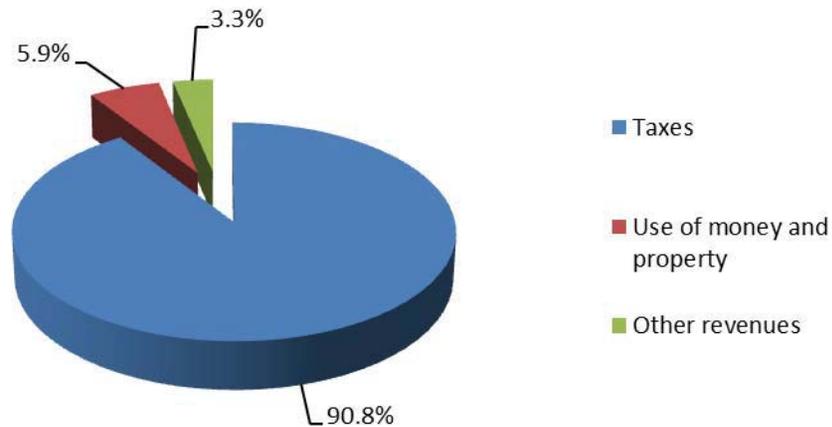


General Revenues Related to Governmental Activities

General Revenues	2011-2012	2010-2011
Taxes	\$ 52,074,270	\$ 51,523,811
Use of money and property	3,371,724	3,585,902
Other revenues	1,887,717	897,064
Total General Revenues	57,333,711	56,006,777

General revenues, which increased only 2.1% over prior year, are all other revenues not attributable to a specific program and, therefore, not categorized as program revenues. These revenues include taxes, use of money and property, and other revenues. The largest increase was due to other revenues which included a sale of property at 900 North Pacific Highway to Auto Nation (Land Rover) in addition to moderate increase in sales taxes, transient occupancy tax.

GENERAL REVENUES



Business-Type Activities

The City has five business-type activities: Harbor Tidelands, Harbor Uplands, Solid Waste, Wastewater, and Transit. The total net assets of the business-type activities decreased by \$2.7 million from the prior year.

Harbor Tidelands is used for the operations of small boat harbor facilities available to the general public, including related pier activities. This fund is restricted under the City Tidelands Trust Agreement with the State of California. In fiscal year 2011-2012, the total net assets of the Harbor Tidelands decreased \$2.3 million from prior year.

Harbor Uplands is also used for the operations of small boat harbor facilities available to the general public, including related pier activities. However, the use of these funds is subject only to the decisions of the City Council. In fiscal year 2011-2012, the total net assets of Harbor Uplands increased by \$104,403 from prior year.

Wastewater is funded by a capital facility charge, or more commonly referred to as a sewer user fee. These funds are used to support the operations of the wastewater fund, which is restricted to sewer infrastructure improvements. In fiscal year 2011-2012, the total net assets of Wastewater decreased \$583,772 from the prior year.

Solid Waste is the City's comprehensive solid waste program, which includes refuse collection, recycling, and hazardous waste disposal services. The solid waste program is supported through user service fees. In fiscal year FY 2011-2012, the total net assets of Solid Waste increased \$91,116 from prior year.

Transit operations provide transportation services mainly to the cities of Redondo Beach, Hermosa Beach, and Manhattan Beach. The transit system is supported through bus passes, passenger fares, contributions from other local jurisdictions, Transportation Development Act Article 4 funding, and Propositions A and C discretionary funding. In fiscal year 2011-2012, the total net assets of Transit decreased \$35,056 from prior year.

INTERNAL SERVICE FUNDS

The City has six internal service funds, as well as overhead. The internal service funds are: Vehicle Replacement, Building Occupancy, Information Technology, Self-Insurance Program, Emergency Communications, and Major Facilities Repair. These funds are used to account for interdepartmental operations where service providers (e.g., fleet, IT, building maintenance) recoup costs by charging user departments.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

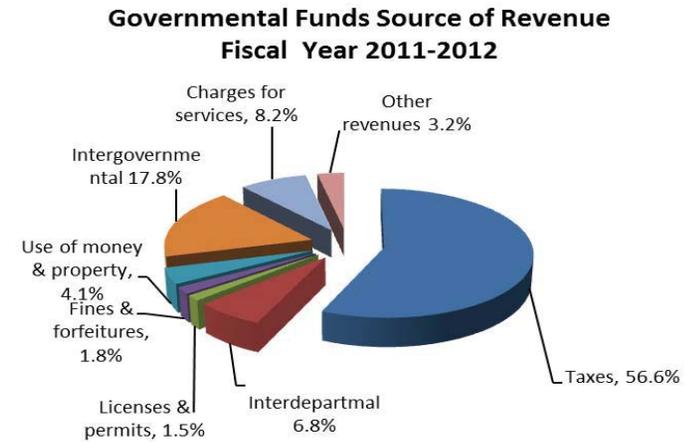
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund financial statements which follow are not reflected on a full accrual basis. Therefore,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

Governmental Funds

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

Governmental Funds - The following schedule is a summary of governmental fund revenues for fiscal year ended June 30, 2012, and includes Major and Non-Major Funds. It reflects the amount and percent of increase or decrease of each source of revenue compared to the prior year.

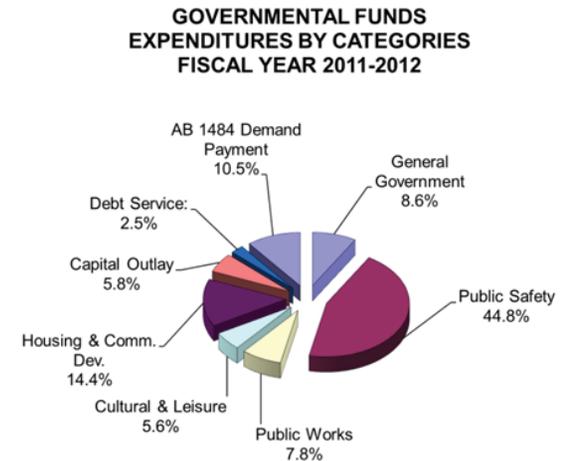
Source of Revenue	Amount FY 11-12	Percent of Total	Increase (Decrease) FY 10-11	Percent Increase (Decrease)
Taxes	\$ 51,875,943	56.6%	\$ (107,118)	-0.2%
Interdepartmental	6,249,628	6.8%	134,103	2.1%
Licenses & permits	1,343,422	1.5%	(94,506)	-7.6%
Fines & forfeitures	1,634,786	1.8%	150,281	8.4%
Use of money & property	3,760,501	4.1%	(247,882)	-7.1%
Intergovernmental	16,339,864	17.8%	1,794,523	12.3%
Charges for services	7,486,013	8.2%	343	0.0%
Other revenues	2,948,048	3.2%	1,500,368	103.6%
Total	\$ 91,638,205	100%	\$ 3,130,112	3.5%



Total governmental fund revenues decreased \$3.1 million, or 3.5%, from fiscal year 2010-2011. Intergovernmental increased \$1.8 million, or 12.3%, due to reimbursements received for completion of grant funded projects. Other revenues increased \$1.5 million, or 103.6%, due primarily to a sale agreement to Auto Nation (Land Rover) at 900N. Pacific Coast

The following schedule is a summary of governmental fund expenditures by function for fiscal year ended June 30, 2012, and includes both Major and Non-Major Funds. It reflects the amount and percent of increase or decrease for each functional category of expenditures compared to the prior year.

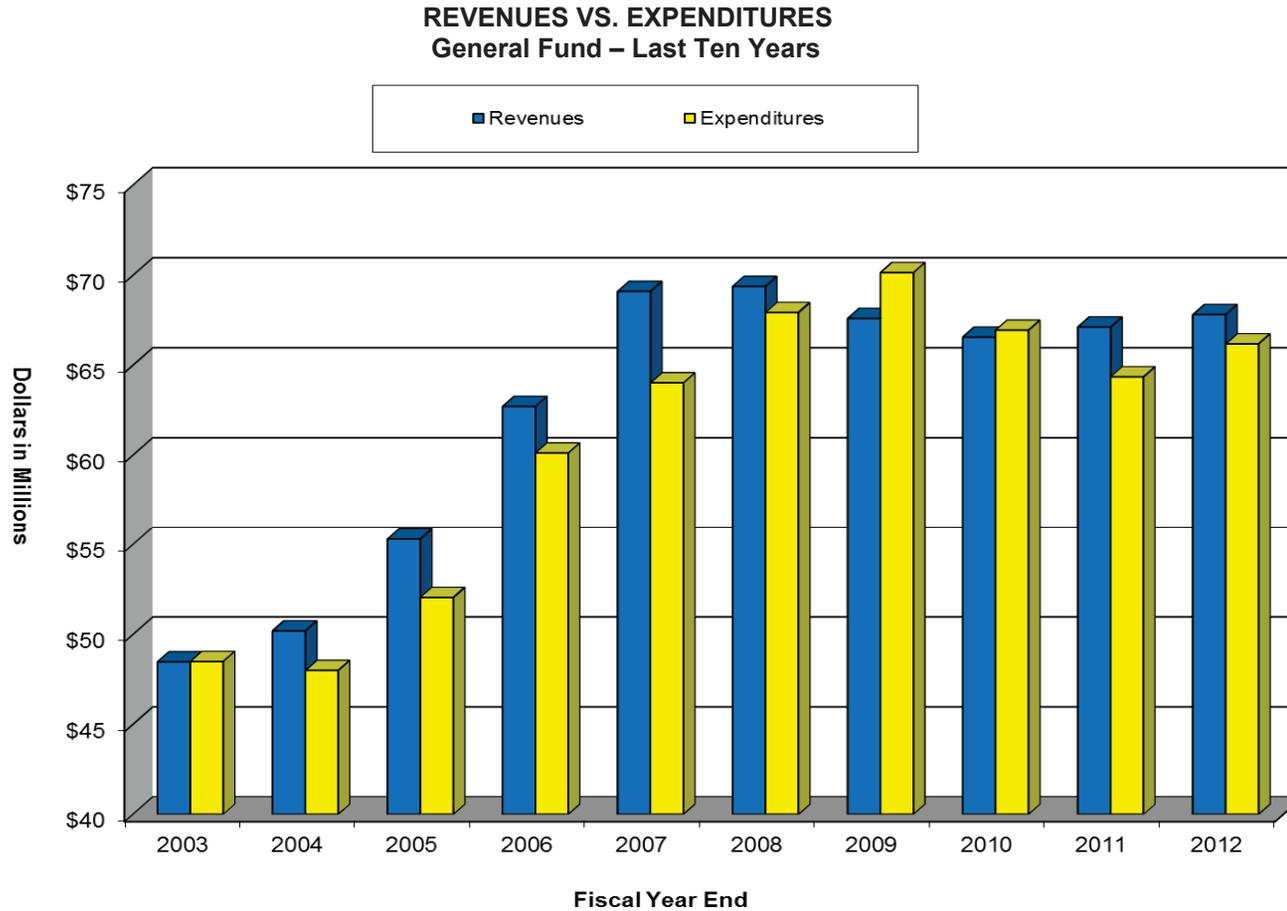
<u>Expenditures</u>	<u>FY 11-12 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over FY 10-11</u>	<u>Percent Increase (Decrease)</u>
Current:				
General Government	\$ 8,085,175	8.6%	\$ 502,206	6.6%
Public Safety	42,244,015	44.8%	793,641	1.9%
Public Works	7,395,866	7.8%	(2,054,905)	(21.7%)
Cultural & Leisure	5,282,197	5.6%	(1,389,737)	(20.8%)
Housing & Comm. Dev.	13,549,748	14.4%	666,804	5.2%
Capital Outlay	5,491,358	5.8%	(2,893,342)	(34.5%)
Debt Service:	2,391,376	2.5%	595,998	33.2%
AB 1484 Demand Payment	9,914,969	10.5%	9,914,969	100.0%
Total	\$ 94,354,704	100.0%	\$ 6,135,634	7.0%



Total governmental fund expenditures increased \$6.1 million, or 7.0%, from fiscal year 2010-2011. As mentioned earlier, the variances are attributable to:

- ✦ General government increased by \$502,206, or 6.6%, primarily due to increases in attorney fees.
- ✦ Public safety increased by \$793,641, or 1.9%, due to personnel costs.
- ✦ Public Works decreased by \$2.1 million or 21.7% and due to reduced personnel costs, as well as reduced construction expenses related to LED Streetlight Replacement Project, Catalina Harbor Advanced Traffic Signal Management project, Aviation Gym Skylight project, Dale Page and Dominquez Park ADA Restroom improvement projects.
- ✦ Cultural and leisure services decreased by \$1.4 million, or 20.8%, due to reduced construction expenses related to the completion of the North Branch Library during the prior FY 2010-11.
- ✦ Housing and community development increased by \$666,804, or 5.2%, due to the housing Section 8 voucher program and the associated administrative costs.
- ✦ Capital outlay expenditures substantially decreased by \$2.8 million, or 34.5%, primarily due to substantial completion of and, therefore, reduced construction expenses related to the projects mentioned above under Public Works and Culture and Leisure Services.
- ✦ Debt service expenditures increased by \$595,998, or 33.2%. The substantial increase was primarily due to the restructure of the Redondo Beach Public Financing Authority Refunding Revenue Bonds (Pier Bonds), an impact of the Redevelopment Agency dissolution.
- ✦ As a result of the state mandated dissolution of the Redevelopment Agency, AB 1484 demand payment is a one time payment of Redevelopment Fund that Successor Agency is not allowed to retain.

Although there are six major funds in the City of Redondo Beach which are reported on page one of the Management Discussion and Analysis, the following focuses on the General Fund, the major operating fund of the City.



Impacts of both increases and decreases to General Fund revenues resulted in a net increase of \$690,423, or 1.0%, from fiscal year 2010-2011. The majority of the increase in revenue was due to the sale of property at 900 No. PCH to Auto Nation (Land Rover) as well as a substantial increase in sales tax and moderate increases to TOT and franchise tax.

General Fund expenditures increased by \$1.8 million or 2.8%. As mentioned earlier, increases were due primarily to the transfer of expenses from the Redevelopment Agency to the General Fund, a result of the State-mandated dissolution of the Redevelopment Agency.

General Fund Balance

The fund balance of the General Fund as of June 30, 2012 was \$13.4 million (includes Special Revenue – PERS Reserve Fund of \$4.0 million), a decrease of \$264,000, when compared to the prior year. The City Council approved the constraints of the General Fund balance reflected below.

GENERAL FUND CONSTRAINTS			
	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>FY 11-12</u>
General Fund Contingency	\$ 5,570,473	\$ 5,595,596	\$ 5,712,942
Compensated Absences	972,424	1,088,635	1,108,239
Carryover Designations	990,746	1,283,994	936,283
Encumbrances	431,762	428,183	580,110
Legal Fees	313,000	313,000	-
Self-Insurance Program Fund Alk	-	350,000	1,375,000
Health Ins Premium Increases	160,000	65,000	41,673
MUNIS Upgrades	-	50,000	-
Future Years' Appropriations	-	-	-
AB1805 - Booking Fees Paid to SI	5,000	-	-
PERS	1,433,167	4,007,236	3,007,236
Petty Cash	17,400	17,300	17,300
Compensation Restoration - POA			151,904
Unassigned Balance	21,644	25,258	-

As part of year-end activities, the City Council reviews the General Fund balance and determines how the City should commit/assign the unrestricted portion. As illustrated above, Council constraints of General Fund balance over the past several years reflect the City's Strategic Plan. Aside from policy-designated amounts (i.e., General Fund Contingency and Compensated Absences), much of the money is committed or assigned to accomplish strategic goals.

NOTE: Prior year General Fund constraints expire and must be reset by Council for the current audit year. Therefore, the numbers reflected above are absolute, not cumulative.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended fiscal year 2011-2012 budget totaled \$69.8 million, including net amendments of \$2.6 million to the originally adopted budget. The City Council adopts budget adjustments during the year to reflect both changed priorities and consideration of events that took place subsequent to the budget adoption. The amendments can be briefly summarized as follows:

- Appropriation of \$14,950 for the Police Department Investigations Division carpet replacement.
- Increased appropriations of \$584,377 for the elimination of Redevelopment Agency funding.
- Appropriation of \$100,000 for financial system enhancements.
- Appropriation of \$70,942 for partial restoration of employee compensation reductions.
- Appropriation of \$106,305 for employee health insurance benefits.
- Funding of prior-year encumbrances of \$428,183.
- Funding of carry-over appropriations of \$1,283,994.
- Increased mid-year appropriations by \$52,069.

Budget amendments were funded from/credited to available fund balance. During the year, however, revenues exceeded budgetary estimates by approximately \$75,000 and expenditures were \$3.5 million less than budgetary estimates, primarily due to contractual services that were not completed by year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the City, including infrastructure assets are those assets used in the performance of the City's functions. At June 30, 2012, net capital assets of the governmental and business-type activities totaled \$144 million and \$40.2 million, respectively. Depreciation on capital assets is recognized in the Government-Wide financial statements.

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

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

Prior to FY 2008-2009, the City's PQI rating, an amalgam of the PCR and the International Roughness Index (IRI) established by the World Bank, was based on a 10.0 scale. In fiscal year 2008-2009, the PQI rating was converted to a 100 point scale to make it comparable to alternative pavement rating methods. City policy was to achieve an average rating of 80 for all streets by fiscal year 2008-2009 and maintain this rating on a go-forward basis. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of June 30, 2012 the City's street system was rated at a PQI of 82.

The City's budget for street maintenance for the fiscal year ended June 30, 2012 was \$8.9 million. Actual expenditures were \$1.2 million, with the remaining budget carried forward as continuing appropriations. The City is judiciously investing in this infrastructure asset as part of the five-year Capital Improvement Program and will continue to rehabilitate and maintain its streets in order to achieve this goal. The expenditure required to maintain and improve the overall condition of the streets from July 1, 2012 through June 30, 2014 is a minimum of \$5.2 million.

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

Description	Original Cost	Accumulated Depreciation	Book Value
Capital Assets - Governmental Activities			
Land	\$ 16,522,947	\$ -	\$ 16,522,947
Buildings and Improvements	45,219,249	(15,991,540)	29,227,709
Equipment, Vehicles, Furniture	20,919,877	(13,845,073)	7,074,804
Work in Progress	1,003,491	-	1,003,491
Construction in Progress	7,230,335	-	7,230,335
Infrastructure	126,408,034	(43,533,553)	82,874,481
Total	\$ 217,303,933	\$ (73,370,166)	\$ 143,933,767
Capital Assets - Business-Type Activities			
Land	\$ 11,323,255	\$ -	\$ 11,323,255
Buildings and Improvements	28,006,413	(14,650,139)	13,356,274
Equipment, Vehicles, Furniture	4,051,458	(2,448,668)	1,602,790
Infrastructure	24,324,980	(10,447,857)	13,877,123
Total	\$ 67,706,106	\$ (27,546,664)	\$ 40,159,442

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

DEBT ADMINISTRATION

Debt service funds are used to account for the accumulation of resources for payment of interest and principal on bonds issued by the City. The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita for the fiscal year 2011-2012 are provided below. These indicators provide important information for management and concerned citizens, as well as potential investors.

	<u>Amount</u>	<u>Ratio of Debt to Assessed Value of Property</u>	<u>Debt per Capita</u>
Net Direct: Bonded Debt	\$ 14,960,000	0.12%	\$ 223.26

Bonds issued by the Public Financing Authority (PFA), also a component unit of the City, were originally issued to provide funds to acquire the 1996 Tax Allocation Bonds of the Redevelopment Agency, to finance certain redevelopment activities with respect to the South Bay Center project area and to provide new monies for certain public capital improvements within the City. In addition, bonds were issued to refinance the Redevelopment Agency's Pier Reconstruction bonds and to finance various improvements to, and to remedy a variety of deficiencies in the facilities of the Wastewater Enterprise. The City has no general obligation bond indebtedness.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fiscal year 2012-2013 finds the City's finances have stabilized, but at a much lower level than we would have forecast. More work has to be done as we maneuver through the next financial and economic challenges. We face strong headwinds from high unemployment, high oil prices, high housing defaults, high pension and health care costs, high regional and global competition, high state and federal deficits, high business failures, and high doubt in government. General Fund revenues from outside sources are projected to increase \$700,000 from fiscal year 2011-2012. Budgetary expectations reflect:

- Property Tax revenue for fiscal year 2012-2013 is conservatively budgeted at \$19,200,000, a decrease of \$200,000 from the amount received in fiscal year 2011-2012, which reflected improvement in the housing market. Redondo Beach's housing market has been fairly stable throughout the housing downturn due to its coastal location. Property tax revenue is the City's number one source of operating revenue.
- Sales and Use Tax revenue is projected to increase \$582,000, or 6.1%, to \$10,177,000. Sales tax revenue projections are generally up due to new businesses replacing closures and an increase in consumer spending. Continued increases in consumer spending are expected with a decline in the Los Angeles county unemployment rate and an increase in personal income. This projection is conservatively based on analysis of current trends, including annual adjustments to the State "triple flip" sales tax apportionment, receipts from the City's largest sales tax sources, levels of consumer disposable income, heightened regional sales tax competition and the ups and downs of consumer confidence.
- Utility Users' Tax (UUT) revenue is projected to increase \$578,000, or 7.8%, to \$8,000,000. This estimate is based upon analysis of the projected performance from each of the categorical components of the City's UUT tax base, including electricity, natural gas, telecommunications, water, and cable television. It reflects average utility usage and no-onetime adjustments, while FY2011-2012 revenues reflected lower utility usage and the set-aside of \$175,000 for a possible refund.

- Franchise Fees are projected to decrease by \$76,000, or 3.9%, to \$1,875,000 for FY 2012-2013. Components of franchise fee revenue include Time Warner cable television operations, Southern California Edison electricity franchise, Southern California Gas operations, Verizon, and taxicab franchise operations. With the exception of revenues from Southern California Gas, revenues from franchise fees reflect moderate increases, which is in line with growth in local operations. Cable television franchise fees represent 48% of the overall franchise fee revenue estimate for FY 2012-13, while projected revenue from the electricity franchise represents 22%. The franchise revenue generated from the sale and transport of natural gas utilized to power the local AES power plant represents 26% of the total franchise fee estimate. Cyclical uncertainties of the deregulated energy environment and their impacts upon the productive utilization rate of the AES power plant require a conservative estimate from this revenue source.
- Investment Earnings for the General Fund for fiscal year 2012-2013 are projected to decrease by \$172,000, or 22.3%, to \$600,000. This decline is attributable to lower interest rates within the investment marketplace, a reduction in the overall size of the portfolio and the financial unfeasibility of the annual TRAns program. Additionally, unrealized gains from the recording of investments at fair market value are not included in budget projections, but are recorded at year end.

Budgeted General Fund appropriations are projected to increase 3.6%, or \$2.4 million, to \$68,582,738. Personnel costs are projected to increase 1.0%, primarily due to the Public Employees Retirement System (PERS) employer contribution rate increases from 14.080% to 14.526% for the miscellaneous group and from 38.386% to 40.391% for public safety. When added to the employee contribution rates of 7% and 9% for the miscellaneous and public safety groups, respectively, the total rates used in calculating the fiscal year 2012-2013 personnel amounts are 21.526% and 49.391%. Maintenance and operating costs also reflect an increase of 33.3%, as the full amount of contracts are typically budgeted, while only partially expended in a single fiscal year.

Since the recession officially ended in June 2009, Redondo Beach, being a coastal city, has fared better than most cities in Southern California. Locally, during FY 2011-2012, Redondo Beach realized an increase of 3.11 % in real property assessed valuations, up from last year's 1.79% increase. Hotel occupancy rates increased by 3.6%, and Transient Occupancy Tax revenue increased by 8.2%, due to improved visitation demand. Utility users' tax revenue remained relatively flat, increasing only 0.87% in FY 2011-2012. Although energy costs increased, they were offset by consumers' enhanced conservation. Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 31 out of 89 cities. Redondo Beach experienced a decrease in its unemployment rate from 7.0% in FY 2010-2011 to 6.4% in FY 2011-2012, which is well below the Los Angeles County and State of California FY 2011-2012 unemployment rates of 11.8% and 11.3%, respectively.

All sectors of the national and regional economy have been impacted by the stagnant economy. Fortunately, the South Bay region has not been negatively impacted nearly as much as other areas of Southern California. Opportunities still exist to further minimize the impacts and set the stage for improvement.

In order to continue to retain and attract business and stimulate tourism, the City must strive to maintain a business friendly attitude and to provide the highest quality in municipal services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Financial Services Department at 415 Diamond Street, Redondo Beach CA 90277, phone 310-318-0683, or e-mail FinanceMail@redondo.org