

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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.

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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**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. *Basis of Accounting and Measurement Focus, (continued)*

Governmental Fund Financial Statements

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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. *Basis of Accounting and Measurement Focus, (continued)*

- Redevelopment Agency Special Revenue Fund - accounts for the accumulation of, and the payments of, redevelopment activities within the project areas and for the housing redevelopment operation of the Agency.
- Low-Mod Income Housing Asset Special Revenue Fund - accounts for all transferred housing assets of the dissolved Redevelopment Agency and funds generated from those housing assets.
- 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 FASB Statements and Interpretations, APB Opinions and ARB of the Committee on Accounting Procedure issued on or before November 30, 1989.

**City of Redondo Beach**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. *Basis of Accounting and Measurement Focus, (continued)*

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

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

The City maintains two fiduciary fund types. The first is a private-purpose trust fund which uses the economic resources measurement focus and the accrual basis of accounting. Private-purpose trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The second is an agency fund which has no measurement focus. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

**City of Redondo Beach**  
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**For the year ended June 30, 2012**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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.

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

*D. Cash, Cash Equivalents and Investments, (continued)*

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.

*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*

In the Government-Wide Financial Statements, 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. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated.

**City of Redondo Beach**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. *Capital Assets, (continued)*

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

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.

**City of Redondo Beach**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. *Capital Assets, (continued)*

In June 2012, 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.

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.

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

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

I. *Interest Payable*

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

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

J. *Unearned Revenue and Deferred Revenue*

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

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

K. *Compensated Absences Payable*

Only the short-term liability for compensated absences (the amount due to employees for future absences, such as vacation and compensatory time, which are attributable to services already rendered) is reported as a current liability in the governmental funds 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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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 the 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.

*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 Balance Sheet of Governmental Funds 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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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.

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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

O. *Fund Balances, (continued)*

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 source:

- Restricted
- Committed
- Assigned
- Unassigned

**City of Redondo Beach**  
**Notes to the Financial Statements**  
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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 Date
November 18, 2011	Unsecured, redemptions, and SB813 taxes	
December 20, 2011	Homeowners' exemption, secured, and SB813 taxes	
January 20, 2012	Homeowners' exemption, secured, and SB813 taxes	
February 17, 2012	Redemptions, secured, and SB813 taxes	
March 20, 2012	Secured and SB813 taxes	
April 20, 2012	Secured and SB813 taxes	
May 18, 2012	Redemptions, homeowners' exemption, secured, and SB813 taxes	
June 20, 2012	Homeowners' exemption, SB813 taxes	
July 20, 2012	Secured and SB813 taxes	
August 20, 2012	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**  
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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:			
Housing and community development	\$ 3,833,061	\$ 4,355,277	\$ (522,216)
Redevelopment Agency - Special Revenue:			
Transfers out	-	29,256	(29,256)
Public Financing Authority:			
Housing and community development	207,722	254,802	(47,080)
Principal retirement	688,264	1,750,000	(1,061,736)
Redevelopment Agency - Debt Service:			
Housing and community development	46,400	51,474	(5,074)
Non-Major Funds:			
Proposition C Special Revenue:			
Housing and community development	1,640	30,069	(28,429)
Disaster Recovery:			
Housing and community development	17,060	24,600	(7,540)
Subdivision Park Trust Special Revenue:			
Housing and community development	-	22,453	(22,453)
Affordable Housing Special Revenue:			
Transfers out	-	10,392,779	(10,392,779)
Capital Improvement Project Capital Projects:			
Transfers out	-	9,015	(9,015)

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2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, (continued)

B. Deficit Fund Balance

The following funds had a deficit balance as of June 30, 2012:

Major Funds:	
Other Intergovernmental Grants	\$ (1,319,919)
Non-Major Funds:	
Community Development Block Grant	(76,092)
Street Landscaping and Lighting District	(4,884)
Local Transit Unit	(176)

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

3. CASH AND INVESTMENTS

Cash and investments are presented on the Statement of Net Assets as follows at June 30, 2012:

	Government-Wide Statement of Net Assets				
	Governmental Activities	Business- Type Activities	Total	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$ 61,021,615	\$ 20,396,868	\$ 81,418,483	\$ 2,329,718	\$ 83,748,201
Restricted cash and investments with fiscal agent	1,194,820	4,062,207	5,257,027	-	5,257,027
Total	<u>\$ 62,216,435</u>	<u>\$ 24,459,075</u>	<u>\$ 86,675,510</u>	<u>\$ 2,329,718</u>	<u>\$ 89,005,228</u>

**City of Redondo Beach**  
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3. CASH AND INVESTMENTS, (continued)

Cash, cash equivalents, and investments consisted of the following at June 30, 2012:

Cash and cash equivalents:	
Petty cash	\$ 17,300
Demand deposits	4,891,912
Total cash and cash equivalents	<u>4,909,212</u>
Investments:	
Local Agency Investment Fund (LAIF)	39,201,833
Corporate Bonds	24,539,936
US Government Securities	15,055,780
Total investments	<u>78,797,549</u>
Total cash and investments	<u>83,706,761</u>
Cash and investments with fiscal agent	<u>5,298,467</u>
Total	<u><u>\$ 89,005,228</u></u>

A. *Cash Deposits*

The carrying amounts of the City's cash deposits were \$4,891,912 at June 30, 2012. Bank balances at June 30, 2012, were \$4,306,947 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.

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3. CASH AND INVESTMENTS, (continued)

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

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, 2012, 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.

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3. CASH AND INVESTMENTS, (continued)

B. *Investments, (continued)*

As of June 30, 2012, the City had \$39,201,833 invested in LAIF, which had invested 3.47 % of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001219643 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, 2012, all MTN's were rated "B" or higher by Moody's. As of June 30, 2012, 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, 2012, the City's investments in external investment pools are unrated.

*Custodial Credit Risk*

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

As of June 30, 2012, 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, 2012, 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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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3. CASH AND INVESTMENTS, (continued)

C. *Deposit and Investment Risk, (continued)*

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

		<u>% of Total Investments</u>
Federal National Mortgage Association	\$ 10,028,770	13%

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

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 50% of the City's portfolio shall mature in three years or less; and at least 25% in one year or less. The only exception to these maturity limits shall be the investment of the gross proceeds of tax exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2012, the City had the following investments and remaining maturities:

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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	\$ 39,201,833	\$ -	\$ -	\$ -	\$ -	\$ 39,201,833
Non-U.S. Securities	-	-	997,716	-	-	997,716
Federal Agencies						
Federal Farm Credit Bank	-	-	-	1,000,140	-	1,000,140
Federal Home Loan Bank	-	-	-	1,015,270	-	1,015,270
Federal Home Loan Mortgage Corp.	-	-	-	3,011,600	-	3,011,600
Federal National Mortgage Assoc.	-	-	999,460	9,029,310	-	10,028,770
Corporate Bonds	5,092,160	2,082,790	3,138,140	13,229,130	-	23,542,220
Total Investments	<u>\$ 44,293,993</u>	<u>\$ 2,082,790</u>	<u>\$ 5,135,316</u>	<u>\$ 27,285,450</u>	<u>\$ -</u>	<u>\$ 78,797,549</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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4. RECEIVABLES

The following is a summary of receivables net of allowances for uncollectible amounts at June 30, 2012:

	Government-Wide Statement of Net Assets		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Assets	
Accounts receivable	\$ 1,213,699	\$ 624,997	\$ 53,845	\$ 1,892,541
Interest receivable	312,887	75,146	5,080	393,113
Taxes receivable	4,759,934	218,044	-	4,977,978
Loans receivable	4,351,480	188,926	-	4,540,406
Total	<u>\$ 10,638,000</u>	<u>\$ 1,107,113</u>	<u>\$ 58,925</u>	<u>\$ 11,804,038</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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4. RECEIVABLES, (continued)

A. *Fund Financial Statements*

At June 30, 2012, 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, 2012, was as follows:

<b>Governmental Funds:</b>	
General Fund	\$ 1,092,414
Other Intergovernmental Grants - Special Revenue	28,860
Public Financing Authority - Debt Service	17,034
Non-Major Funds	59,084
Total Governmental Funds	<u>1,197,392</u>
<b>Proprietary Funds:</b>	
Harbor Tidelands - Enterprise Fund	283,205
Harbor Uplands - Enterprise Fund	213,636
Wastewater Fund - Enterprise Fund	42,360
Solid Waste - Enterprise Fund	42,057
Transit - Enterprise Fund	43,739
Internal Service Funds	16,307
Total Proprietary Funds	<u>641,304</u>
<b>Fiduciary Funds</b>	
Agency Funds	19,213
Redevelopment Obligation Retirement Fund	34,632
Total Fiduciary	<u>53,845</u>
<b>Total Accounts Receivable</b>	<u><u>\$ 1,892,541</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012, was as follows:

**Governmental Funds:**

General Fund	\$ 241,772
Other Intergovernmental Grants - Special Revenue	1,652
Low-Mod Income Housing Assets Fund - Special Revenue	32,330
Public Financing Authority - Debt Service	337
Non-Major Funds	<u>36,796</u>
Total Governmental Funds	<u>312,887</u>

**Proprietary Funds:**

Harbor Tidelands - Enterprise Fund	61,464
Harbor Uplands - Enterprise Fund	11,331
Transit - Enterprise Fund	<u>2,351</u>
Total Proprietary Funds	<u>75,146</u>

**Fiduciary Funds**

Agency Funds	579
Redevelopment Obligation Retirement Fund	<u>4,501</u>
Total Fiduciary Funds	<u>5,080</u>
<b>Total</b>	<u><u>\$ 393,113</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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4. RECEIVABLES, (continued)

C. *Taxes Receivable*

At June 30, 2012, the City had the following taxes receivable:

	Governmental Funds		Proprietary Funds		Total
	General Fund	Non-Major Governmental Funds	Wastewater	Solid Waste	
<b>Type of Taxes:</b>					
Property Taxes	\$ 1,362,938	\$ 93,331	\$ 122,023	\$ 96,021	\$ 1,674,313
Sales Taxes	1,139,300	-	-	-	1,139,300
Transient Occupancy Taxes	333,512	-	-	-	333,512
Utility Users Taxes	575,886	-	-	-	575,886
Transfer Taxes	121,090	-	-	-	121,090
Gas Taxes	-	189,824	-	-	189,824
Triple Flip	944,053	-	-	-	944,053
Total taxes	<u>\$ 4,476,779</u>	<u>\$ 283,155</u>	<u>\$ 122,023</u>	<u>\$ 96,021</u>	<u>\$ 4,977,978</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

4. RECEIVABLES, (continued)

D. *Loans Receivable*

At June 30, 2012, the City had the following loans receivable:

	Governmental Funds			Proprietary Funds		Total
	General Fund	Low-Mod Income Housing Asset Fund	Non-Major Governmental Funds	Harbor Tidelands Enterprise Fund		
Home Rehabilitation Loans	\$ -	\$ 958,622	\$ -	\$ -	\$ 958,622	
Landlord Program	-	-	476,563	-	476,563	
Senior Housing Program	-	2,898,235	-	-	2,898,235	
Computer Program	18,060	-	-	-	18,060	
Harbor Area Business Loans	-	-	-	188,926	188,926	
Total	\$ 18,060	\$ 3,856,857	\$ 476,563	\$ 188,926	\$ 4,540,406	

Home Rehabilitation Loans

At June 30, 2012, the City was owed, in its Low and Moderate Housing Fund, \$958,622 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, 2012, 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**  
**For the year ended June 30, 2012**

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4. RECEIVABLES, (continued)

D. *Loans Receivable, (continued)*

Harbor Area Business Loans

At June 30, 2012, the City's Harbor Tidelands Enterprise Fund was owed \$143,285 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 \$45,641 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, 2012, the loan receivable included accrued interest of \$698,235.

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, 2012, the loan receivable balance was \$18,060.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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5. INTERFUND TRANSACTIONS

A. *Government-Wide Financial Statements*

Internal Balances

At June 30, 2012, the City had the following internal receivables and payables for covering cash shortfalls:

	Internal Balances Receivable
	Business-Type Activities
Internal Balances Payable	
Governmental Activities	\$ 238,587

Transfers

The City had the following transfers as of June 30, 2012:

	Transfers In
	Business-Type Activities
Transfers Out	
Governmental Activities	\$ 1,017,605

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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, 2012:

Due to Other Funds	Due from Other Funds			
	General Fund	Non-Major	Harbor	Total
		Governmental Funds	Tidelands Enterprise Fund	
General Fund	\$ -	\$ 19,281	\$ -	\$ 19,281
Other Intergovernmental Grants	327,932	-	-	327,932
Public Financing Authority	911	-	238,587	239,498
Non-Major Governmental Funds	217,654	-	-	217,654
Total	\$ 546,497	\$ 19,281	\$ 238,587	\$ 804,365

The General Fund has amounts due from the Public Financing Authority Fund of \$911 for reimbursement of expenditures made on the Public Financing Authority's behalf and from the Other Intergovernmental Grants Fund of \$327,932 and from the Non-Major Governmental Funds of \$217,554 for temporary cash deficits.

The Non-Major Governmental Funds have a due from General Fund of \$19,281 for over-reimbursement of expenditures made on the Housing Authority's behalf.

The Harbor Tidelands Enterprise Fund has a due from the Public Financing Authority Fund of \$238,587 for Kincaid's Restaurant rental income in excess of Financing Authority obligations passed through to the Harbor Tidelands Fund.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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5. INTERFUND TRANSACTIONS, (continued)

B. Fund Financial Statements, (continued)

Long-Term Advances

The City had the following long-term advances as of June 30, 2012:

	Advance to Other Funds
Advance from Other Funds	General Fund
Public Financing Authority	\$ 1,272,472

During the 2009-10 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, 2012, the amount owed on the loan was \$1,272,472.

During the previous fiscal years, the Financing Authority made loans to the Redevelopment Agency for various bonds. However, due to the dissolution of the Agency in the current year, the balance of the loans previously made to the redevelopment agency was transferred to the Successor Agency of the former redevelopment agency, pursuant to ABx1 26 and AB 1484. Therefore, the balance was moved in the current fiscal year from an Advance to Other Funds to a Due from Other Governments in the Public Financing Authority Debt Service Fund. The Agency's balances as of June 30, 2012, were as follows:

1996 Revenue Bond	\$ 6,765,000
2001 Pier Refinancing Bond	668,885
Total	<u>\$ 7,433,885</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

5. INTERFUND TRANSACTIONS, (continued)

B. Fund Financial Statements, (continued)

Long-Term Advances (continued)

During the previous fiscal years, the City 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, 2012, loans and accrued unpaid interest owed on those loans were \$7,878,526.

Transfers

The City had the following transfers as of June 30, 2012:

Transfers Out	Transfers In						Total
	General Fund	Redevelopment Agency Special Revenue	Other Intergovernmental Grants	Non-Major Funds	Enterprise Funds	Internal Service Funds	
General Fund	\$ -	\$ -	\$ 155	\$ 985,470	\$ 23,492	\$ 963,318	1,972,435
Redevelopment Agency Fund - Special Revenue	-	-	-	29,256	-	-	29,256
Enterprise funds: Harbor Tidelands	80,580	-	-	-	-	-	80,580
Non-Major Governmental Funds	-	10,363,523	-	38,271	1,074,693	-	11,476,487
<b>Total</b>	<b>\$ 80,580</b>	<b>\$ 10,363,523</b>	<b>\$ 155</b>	<b>\$ 1,052,997</b>	<b>\$ 1,098,185</b>	<b>\$ 963,318</b>	<b>\$ 13,558,758</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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5. INTERFUND TRANSACTIONS, (continued)

B. *Fund Financial Statements, (continued)*

The General Fund transferred out a total of \$1,972,435 to various funds consisting of \$975,393 to cover expenditures in the Street Landscaping and Lighting District Non-major governmental fund, \$49,200 to cover administrative expenses of various funds per Council resolution, \$947,711 to the Self-Insurance Program Internal Service Fund for legal settlements.

The Redevelopment Agency Special Revenue Fund transferred \$29,256 to Non-Major Funds pursuant to cooperation agreement.

Transfers between the Harbor Tidelands Enterprise Fund and the General Fund of \$80,580 were for the property tax in lieu fee.

Transfers from the Non-Major Governmental Funds in the amount of \$11,438,216 consisted of a \$10,363,523 transfer of assets from the City to the Redevelopment Agency Special Revenue Fund based on a cooperation agreement related to affordable housing and \$1,074,693 transfer of Proposition A revenues to cover Transit Enterprise Fund expenditures.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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, 2012, 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	7,230,335	-	7,230,335
Work in progress	1,003,491	-	1,003,491
Infrastructure - streets	54,054,036	-	54,054,036
Total non-depreciable assets	<u>78,810,809</u>	<u>11,323,255</u>	<u>90,134,064</u>
Depreciable assets:			
Buildings and improvements	45,219,249	28,006,415	73,225,664
Furniture and equipment	8,146,237	648,679	8,794,916
Automotive equipment	11,180,009	3,402,779	14,582,788
Leased equipment	1,593,631	24,324,980	25,918,611
Infrastructure	72,353,998	-	72,353,998
Total depreciable assets	<u>138,493,124</u>	<u>56,382,853</u>	<u>194,875,977</u>
Less accumulated depreciation for:			
Buildings and improvements	(15,991,540)	(14,650,139)	(30,641,679)
Furniture and equipment	(6,229,495)	(643,126)	(6,872,621)
Automotive equipment	(6,894,101)	(1,805,542)	(8,699,643)
Leased equipment	(721,477)	(10,447,857)	(11,169,334)
Infrastructure	(43,533,553)	-	(43,533,553)
Total accumulated depreciation	<u>(73,370,166)</u>	<u>(27,546,664)</u>	<u>(100,916,830)</u>
Total depreciable assets, net	<u>65,122,958</u>	<u>28,836,189</u>	<u>93,959,147</u>
Governmental activities capital assets, net	<u>\$ 143,933,767</u>	<u>\$ 40,159,444</u>	<u>\$ 184,093,211</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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 at July 01, 2011	Additions	Deletions	Reclassifications	Balance at June 30, 2012
Non-depreciable assets:					
Land	\$ 16,522,947	\$ -	\$ -	\$ -	\$ 16,522,947
Construction in progress	4,442,544	3,706,884	-	(919,093)	7,230,335
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>3,706,884</u>	<u>-</u>	<u>(919,093)</u>	<u>78,810,809</u>
Depreciable assets:					
Buildings and improvements	43,430,667	1,036,069	-	752,513	45,219,249
Furniture and equipment	8,427,486	91,457	(372,706)	-	8,146,237
Automotive equipment	9,567,269	2,123,970	(511,230)	-	11,180,009
Leased equipment	1,208,735	384,896	-	-	1,593,631
Infrastructure	71,917,974	340,395	(70,951)	166,580	72,353,998
Total depreciable assets	<u>134,552,131</u>	<u>3,976,787</u>	<u>(954,887)</u>	<u>919,093</u>	<u>138,493,124</u>
Less accumulated depreciation for:					
Buildings and improvements	(14,879,753)	(1,111,787)	-	-	(15,991,540)
Furniture and equipment	(6,110,572)	(491,629)	372,706	-	(6,229,495)
Automotive equipment	(6,545,130)	(847,242)	498,271	-	(6,894,101)
Leased equipment	(359,009)	(362,468)	-	-	(721,477)
Infrastructure	(41,486,846)	(2,117,658)	70,951	-	(43,533,553)
Total accumulated depreciation	<u>(69,381,310)</u>	<u>(4,930,784)</u>	<u>941,928</u>	<u>-</u>	<u>(73,370,166)</u>
Total depreciable assets, net	<u>65,170,821</u>	<u>(953,997)</u>	<u>(12,959)</u>	<u>919,093</u>	<u>65,122,958</u>
Governmental activities capital assets, net	<u>\$ 141,193,839</u>	<u>\$ 2,752,887</u>	<u>\$ (12,959)</u>	<u>\$ -</u>	<u>\$ 143,933,767</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012 as follows:

**Governmental Activities:**

General government	\$	156,747
Public safety		188,788
Public works		3,136,005
Culture and leisure services		309,650

**Internal Service Funds:**

Vehicle Replacement		604,690
Building Occupancy		2,280
Information Technology		443,838
Printing and Graphics		18,931
Communications Equipment Replacement		69,855

<b>Total depreciation expense</b>	<b>\$</b>	<b>4,930,784</b>
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**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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, 2012:

	Balance at July 01, 2011	Additions	Deletions	Reclassifications	Balance at June 30, 2012
Nondepreciable assets:					
Land	\$ 11,323,255	\$ -	\$ -	\$ -	\$ 11,323,255
Total non-depreciable	11,323,255	-	-	-	11,323,255
Depreciable assets:					
Buildings and improvements	28,006,415	-	-	-	28,006,415
Furniture and equipment	648,679	-	-	-	648,679
Automotive equipment	3,148,105	254,674	-	-	3,402,779
Infrastructure	23,532,843	792,137	-	-	24,324,980
Total depreciable assets	55,336,042	1,046,811	-	-	56,382,853
Less accumulated depreciation:					
Buildings and improvements	(14,036,339)	(613,800)	-	-	(14,650,139)
Furniture and equipment	(640,425)	(2,701)	-	-	(643,126)
Automotive equipment	(1,570,735)	(234,807)	-	-	(1,805,542)
Infrastructure	(10,139,601)	(308,256)	-	-	(10,447,857)
Total accumulated depreciation	(26,387,100)	(1,159,564)	-	-	(27,546,664)
Total depreciable assets, net	28,948,942	(112,753)	-	-	28,836,189
Business-type activities capital assets, net	\$ 40,272,197	\$ (112,753)	\$ -	\$ -	\$ 40,159,444

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

6. CAPITAL ASSETS, (continued)

Depreciation expense for business-type activities for the fiscal year ended June 30, 2012 was charged as follows:

Harbor Tidelands	\$ 454,022
Harbor Uplands	273,971
Wastewater	204,282
Solid Waste	11,096
Transit	216,193
<b>Total depreciation expense</b>	<b>\$ 1,159,564</b>

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, 2012:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental Activities:</b>						
Compensated absences payable	\$ 2,633,331	\$ 998,779	\$ (959,555)	\$ 2,672,555	\$ 188,759	\$ 2,483,796
<b>Business-Type Activities</b>						
Compensated absences payable	309,062	308,820	(264,533)	353,349	24,958	328,391
<b>Total</b>	<b>\$ 2,942,393</b>	<b>\$ 1,307,599</b>	<b>\$ (1,224,088)</b>	<b>\$ 3,025,904</b>	<b>\$ 213,717</b>	<b>\$ 2,812,187</b>

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**  
**For the year ended June 30, 2012**

8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	Balance July 01, 2011	Additions	Deletions	Transfers resulting from RDA Dissolution	Balance June 30, 2012	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental Activities:							
PFA 2001 Refunding Revenue Bonds	\$ 1,875,000	\$ -	\$ (1,135,000)	\$ -	\$ 740,000	\$ 140,000	\$ 600,000
PFA 2008 Refunding Revenue Bonds	6,100,000	-	(615,000)	-	5,485,000	640,000	4,845,000
Unamortized bond Premium	151,906	-	(18,989)	-	132,917	18,989	113,928
County Deferral Loans	14,088,789	246,200	-	(14,334,989)	-	-	-
Capital Leases	887,201	352,829	(356,094)	-	883,936	368,378	515,558
<b>Total governmental activities</b>	<b>\$ 23,102,896</b>	<b>\$ 599,029</b>	<b>\$ (2,125,083)</b>	<b>\$ (14,334,989)</b>	<b>\$ 7,241,853</b>	<b>\$ 1,167,367</b>	<b>\$ 6,074,486</b>
Business-Type Activities:							
Wastewater Revenue Bond 2004, Series A	\$ 8,960,000	\$ -	\$ (225,000)	\$ -	\$ 8,735,000	\$ 235,000	\$ 8,500,000
Unamortized bond discount	(54,605)	-	2,374	-	(52,231)	2,374	(54,605)
Boating and Waterways							
Construction Loan 88-21-84	939,793	-	(87,002)	-	852,791	90,917	761,874
Boating and waterways							
Construction Loan 89-21-147	2,267,306	-	(184,511)	-	2,082,795	192,814	1,889,981
<b>Total business-type activities</b>	<b>\$ 12,112,494</b>	<b>\$ -</b>	<b>\$ (494,139)</b>	<b>\$ -</b>	<b>\$ 11,618,355</b>	<b>\$ 521,105</b>	<b>\$ 11,097,250</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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 were used to provide funds to refinance certain redevelopment activities of the Agency within or for the benefit of the Agency's Harbor Center Redevelopment Project Area (Project Area) and refund the Agency's outstanding Tax Allocation and Revenue Bonds issued in 1993. A letter of credit (LC) was required as part of the financing agreement, and in 2001, Allied Irish Bank (AIB) issued a LC for the full amount.

In 2009, modified policies of AIB prohibited it from renewing the LC. Therefore, the Agency replace the original LC with a three-year LC provided by Bank of the West (BOW), under the terms of a LC dated February 1, 2009. Collateral for this LC took the form of a deposit of \$1 million in a money market/demand account with BOW for a corresponding three-year term commencing on March 2, 2009, and maturing March 2, 2012.

As described in Note 19, Dissolution of California Redevelopment Agencies, the State mandated dissolution of all redevelopment agencies effective February 1, 2012. With this, BOW understandably would not renew the LC with the now dissolved Agency. Also, the Successor Agency was not able to renew or replace the terms of the LC as the provisions of AB X1 26 were unclear as to the power of the Successor Agency to do so. Pursuant to the terms of the LC and the 2001 bonds, BOW drew on the full amount of the LC and purchased the outstanding 2001 bonds. BOW is now the owner of the 2001 bonds and is requiring interest-only payments of 10.00% until the bonds can be refinanced. Therefore, there is no fixed payment schedule. As of June 30, 2012, the balance outstanding was \$740,000.

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, 2012, the balance outstanding was \$5,485,000, with an unamortized premium of \$132,917.

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 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. As of June 30, 2012, the balance outstanding was \$5,485,000.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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8. LONG-TERM DEBT, (continued)

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2012, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	745,000	95,900	840,900
2018-2019	2,025,000	108,300	2,133,300
Total	<u>\$ 5,485,000</u>	<u>\$ 869,700</u>	<u>\$ 6,354,700</u>

The following is a summary of the 2008 Refunding Revenue unamortized premium outstanding at June 30, 2012:

Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>\$ 151,906</u>	<u>\$ -</u>	<u>\$ (18,989)</u>	<u>\$ 132,917</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012, was \$883,936.

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

	<u>June 30, 2012</u>
Equipment	<u>\$ 1,593,631</u>
Equipment under capitalized lease, at cost	1,593,631
Accumulated depreciation	(721,477)
Equipment under capitalized lease, net	<u><u>\$ 872,154</u></u>

The annual debt service requirements outstanding at June 30, 2012 were as follows:

<u>For the Years</u> <u>Ending June 30,</u>	<u>Payment</u> <u>Amount</u>
2013	\$ 368,378
2014	350,244
2015	165,314
<b>Total</b>	<u><u>\$ 883,936</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012, the balance outstanding was \$8,735,000, with an unamortized bond discount of \$52,231. Principal and interest paid for the current year and total revenues for the Wastewater Fund were \$676,050 and \$2,609,084, respectively, 25.91%.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2012, including interest, are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	275,000	383,775	658,775
2018-2022	1,600,000	1,707,850	3,307,850
2023-2027	2,030,000	1,271,500	3,301,500
2028-2032	2,600,000	710,000	3,310,000
2033-2034	1,230,000	93,000	1,323,000
Total	<u>\$ 8,735,000</u>	<u>\$ 5,812,913</u>	<u>\$ 14,547,913</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

8. LONG-TERM DEBT, (continued)

The following is a summary of the 2004 Revenue Bond Series A unamortized discount outstanding at June 30, 2012:

Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
\$ (54,605)	\$ -	\$ 2,374	\$ (52,231)

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, 2012, the balance outstanding was \$852,791.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	108,421	20,872	129,293
2018-2021	355,408	32,455	387,863
Total	\$ 852,791	\$ 181,537	\$ 1,034,328

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012, the balance outstanding was \$2,082,795.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	229,935	56,605	286,540
2018-2021	1,027,964	118,189	1,146,153
Total	<u>\$ 2,082,795</u>	<u>\$ 496,058</u>	<u>\$ 2,578,853</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012
A. Multifamily Housing Revenue Bonds /Notes Heritage Pointe Project Series 2004A	\$ 11,390,000	\$ 10,890,000
B. Multifamily Housing Revenue Refunding Bonds/SEASONS at Redondo Beach Series 2008A	\$ 6,425,000	\$ 4,184,190

10. OPERATING LEASE INCOME

A. *Harbor Tidelands and Uplands Enterprise Operating Leases*

The Harbor Tidelands and Harbor Uplands Enterprise Funds were created by 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 arise 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 \$901,567. The balance as of June 30, 2012 was \$9,505,328.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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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, 2012:

Year Ending June 30,	Minimum Future Lease Rentals
2013	\$ 5,270,136
2014	5,466,956
2015	5,713,956
2016	5,623,956
2017	5,623,956
2018 - 2022	17,110,781
2023 - 2027	14,957,577
2028 - 2032	13,834,766
2033 - 2037	12,746,919
2038 - 2042	12,933,059
2043 - 2047	10,600,259
2048 - 2052	9,822,659
2053 - 2057	9,822,659
2058 - 2062	9,512,601
2063 - 2067	3,126,340
2068 - 2069	1,029,535
Totals	<u>\$ 143,196,113</u>

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

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

11. SUCCESSOR AGENCY LONG-TERM DEBT

In accordance with the provisions of Assembly Bill X1 26 (Bill) and the California Supreme Court's decision to uphold the Bill, the obligations of the former redevelopment agency became vested with the funds established for the successor agency upon the date of dissolution, February 1, 2012. Former tax increment revenues pledged to fund the debts of the former redevelopment agency will be distributed to the Successor Agency subject to the reapportionment of such revenues as provided by the Bill.

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%.

The debt of the Successor Agency as of June 30, 2012 is as follows:

	Balance July 01, 2011	Additions	Deletions	Transfers resulting from RDA Dissolution	Balance June 30, 2012	Amounts Due Within One Year	Amounts Due in More than One Year
Successor Agency:							
County Deferral Loan - 1983 tax Increment Deferral	\$ -	\$ -	\$ -	\$ 6,934,419	\$ 6,934,419	\$ -	\$ 6,934,419
County Deferral Loan - 1984 tax Increment Deferral	-	-	-	7,400,570	7,400,570	-	7,400,570
City Loan - Principal - Harbor Center	-	-	-	4,288,426	4,288,426	-	4,288,426
City Loan - Interest - Harbor Center	-	-	-	3,590,101	3,590,101	160,000	3,430,101
City Loan (PFA) - Harbor Center	-	-	(1,022,500)	1,691,385	668,885	-	668,885
City Loan - South Bay Center	-	-	-	6,765,000	6,765,000	230,000	6,535,000
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,022,500)</b>	<b>\$ 30,669,901</b>	<b>\$ 29,647,401</b>	<b>\$ 390,000</b>	<b>\$ 29,257,401</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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11. SUCCESSOR AGENCY LONG-TERM DEBT, (Continued)

*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, 2012, 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, 2012, was \$7,400,570.

12. 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, 2012, the estimated claims payable for workers' compensation was \$12,366,151, which included claims incurred but not reported (IBNR). The current year's portion of the claims was \$706,665.

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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

12. RISK MANAGEMENT, (continued)

As of June 30, 2012, the estimated claims payable for general liability was \$2,462,670, which included IBNR. The current year's portion was \$114,274. Governmental activities claims and judgments are generally liquidated by the general fund.

	Liability on June 30, 2012
General Liability	\$ 2,462,670
Workers' Compensation	12,366,151
Total	<u>\$ 14,828,821</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.

Changes in the reported liability resulted from the following:

Year Ended June 30,	Balance July 01, 2011	Additions	Deletions	Amounts Balance June 30, 2012	Amounts Due Within One Year	Due in More than One Year
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
2012	14,904,404	401,768	(477,351)	14,828,821	820,938	14,007,883

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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12. RISK MANAGEMENT, (continued)

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:

	Total
Assets	\$ 59,190,967
Liabilities of member cities	\$ 26,400,993
Net assets	32,789,974
<b>Total liabilities and net assets</b>	<b>\$ 59,190,967</b>
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 - July 30, 2011	\$ 32,789,974

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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13. 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 \$2,714,864 for the year ended June 30, 2012. The City is required to contribute for fiscal year 2010-2012 at an actuarially determined rate of 14.526% and 40.391% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost - For 2010-2012, the City's annual pension cost of \$10,085,958 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, 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 3.55% to 14.45% for miscellaneous employees and from 3.55% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. 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, 2010, was 21 years for miscellaneous and 30 years for safety employees for prior and current service unfunded liability.

**THREE-YEAR TREND INFORMATION FOR PERS**

Fiscal Year	Annual Pension (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 10,024,453	100%	\$ -
6/30/2011	9,646,142	100%	-
6/30/2012	10,085,958	100%	-

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

13. 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.

	(A)	(B)	<u>Safety Plan</u> (C)	(D)	(E)	(F)
			Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>				
6/10/2010	\$ 209,481,432	\$ 259,321,750	\$ 49,840,318	80.8%	\$ 15,615,232	319.2%

  

	(A)	(B)	<u>Miscellaneous Plan</u> (C)	(D)	(E)	(F)
			Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>				
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**  
**For the year ended June 30, 2012**

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13. 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, 2012, approximately 107 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 2012, the City contributed \$1,486,000 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:

	Total
Annual required contribution	\$ 1,486,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,486,000</u>
Contributions made	<u>(1,486,000)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

13. 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 2012 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 1,486,000	\$ 1,486,000	100%	\$ -

*Funded Status and Funding Progress.* As of June 30, 2011, the most recent actuarial valuation date, the plan was 14.9 percent funded. The Actuarial Accrued Liability for benefits was \$18,365,000, and the actuarial value of assets was \$2,731,000, resulting in a VAAL of \$15,634,000. The covered payroll (annual payroll of active employees covered by the plan) was \$32,730,000 and the ratio of VAAL to the covered payroll was 47.8%.

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, 2011.

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value (A)	Actuarial Accrued Liability Entry Age (B)	Unfunded Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2011	\$ 2,731,000	\$ 18,365,000	\$ (15,634,000)	14.9%	\$ 32,730,000	47.80%

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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13. 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, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 7.25% investment rate of return which is based on the expected return on funds invested by CaIPERS, and an annual healthcare cost trend rate of actual premiums, 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 VAAL from June 30, 2006 valuation is being amortized as level percentage of projected payroll over a 30 year closed period (25 years remaining for fiscal year 2013/2014). Subsequent increases/ decreases in VAAL 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.

14. 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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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14. COMMITMENTS AND CONTINGENCIES, (continued)

C. *Commitments*

As of June 30, 2012, 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.

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 \$51,000.

15. 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 \$282,000. Additional cleanup and settlements currently are estimated to be \$150,000. This liability has been accrued in the General Fund.

16. 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. With an improved budget situation, the City lifted the previously declared fiscal emergency on June 19, 2012.

**City of Redondo Beach**  
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17. CLASSIFICATION OF FUND BALANCES

The City 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 classification.

	General Fund	Special Revenue			Debt Service		Nonmajor Governmental Funds	Total Governmental Funds
		Other Intergovernmental Grants	Redevelopment Agency	Low-Mod Income Housing Asset	Public Financing Authority	Redevelopment Agency		
<b>Nonspendable</b>								
Prepaid costs	\$ 58,488	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,995	\$ 116,483
Notes and loans receivable	18,059	-	-	2,898,234	-	-	-	2,916,293
<b>Total nonspendable</b>	<u>76,547</u>	<u>-</u>	<u>-</u>	<u>2,898,234</u>	<u>-</u>	<u>-</u>	<u>57,995</u>	<u>3,032,776</u>
<b>Restricted</b>								
Debt service	-	-	-	-	7,362,829	-	5,679	7,368,508
Public safety	-	-	-	-	-	-	1,355,860	1,355,860
Public works	-	-	-	-	-	-	1,576,834	1,576,834
Low and moderate income housing	-	-	-	535,731	-	-	-	535,731
Affordable housing	-	-	-	-	-	-	-	-
Housing and community development	-	-	-	-	-	-	7,534,013	7,534,013
<b>Total restricted</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>535,731</u>	<u>7,362,829</u>	<u>-</u>	<u>10,472,386</u>	<u>18,370,946</u>
<b>Committed</b>								
Contingency	5,712,942	-	-	-	-	-	-	5,712,942
<b>Total committed</b>	<u>5,712,942</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,712,942</u>
<b>Assigned</b>								
Capital improvement projects	-	-	-	-	-	-	3,849,630	3,849,630
General government	326,455	-	-	-	-	-	-	326,455
Public safety	59,991	-	-	-	-	-	-	59,991
Housing and community development	112,960	-	-	-	-	-	-	112,960
Cultural and leisure services	-	-	-	-	-	-	-	-
Public works	80,704	-	-	-	-	-	-	80,704
Carryover assignments	936,283	-	-	-	-	-	-	936,283
Compensated absences	1,108,239	-	-	-	-	-	-	1,108,239
Petty cash	17,300	-	-	-	-	-	-	17,300
Self-insurance program	1,375,000	-	-	-	-	-	-	1,375,000
Health insurance	41,673	-	-	-	-	-	-	41,673
Compensation restoration	151,904	-	-	-	-	-	-	151,904
CalPERS	3,007,236	-	-	-	-	-	-	3,007,236
<b>Total assigned</b>	<u>7,217,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,849,630</u>	<u>11,067,375</u>
<b>Unassigned</b>	<u>383,446</u>	<u>(1,319,919)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,823,893</u>	<u>1,887,420</u>
<b>Total fund balance</b>	<u>\$ 13,390,680</u>	<u>\$ (1,319,919)</u>	<u>\$ -</u>	<u>\$ 3,433,965</u>	<u>\$ 7,362,829</u>	<u>\$ -</u>	<u>\$ 17,203,904</u>	<u>\$ 40,071,459</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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18. PRIOR PERIOD ADJUSTMENT

A. *Fund Financial Statements*

The City recorded the following prior-period adjustment in the Proprietary Funds Financial Statements. The adjustment to the Proprietary Funds includes a \$16,573 addition in revenue in the Transit Enterprise Fund. The adjustment occurred because of an error recorded in a fixed route revenue account. Accordingly, the net assets as of July 1, 2011, have been restated as follows:

<u>Proprietary Funds</u>	<u>Net Assets, as Previously Reported</u>	<u>Prior Period Adjustments</u>	<u>Net Assets as Restated</u>
Transit Fund	\$ 1,087,699	\$ (16,573)	\$ 1,071,126
Total	<u>\$ 1,087,699</u>	<u>\$ (16,573)</u>	<u>\$ 1,071,126</u>

19. DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES

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. Most cities in California had established a redevelopment agency that was included in the reporting entity of the City as a blended component unit (since the City council, in many cases, also served as the governing board for those agencies).

The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. If the City declines to accept the role of successor agency, other local agencies may elect to perform this role. If no local agency accepts the role of successor agency the Governor is empowered by the Bill to establish a local "designated local authority" to perform this role. On January 10, 2012 the City Council met and created a Successor Agency in accordance with the Bill as part of the City's resolution number 12-01.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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20. DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES, (continued)

In future fiscal years, successor agencies will only be allocated tax revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full.

The Bill 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 the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency is reported in the governmental funds of the City. After the date of dissolution, activities of the dissolved redevelopment agency are reported in a fiduciary trust fund (private purpose trust fund) in the fiduciary statements of the City.

The movement of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of the assets and liabilities as of February 1, 2012 was reported in the fiduciary private-purpose trust fund as an extraordinary gain (or loss). Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds will not be the same amount as the extraordinary gain (loss) that will be recognized in the fiduciary fund financial statements.

21. RISK & UNCERTAINTIES

A. *Grants*

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**

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21. RISK & UNCERTAINTIES, (continued)

B. *Successor Agency*

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2012 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time, although the Successor Agency expects such amounts, if any, to be immaterial.