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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redondo Beach, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Implementation of new pronouncement

As discussed in Note 1 of the financial statements, the City of Redondo Beach adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the City of Redondo Beach, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Rogers Anderson Maloney & Scott, LLP

December 13, 2013
San Bernardino, CA

CITY OF REDONDO BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Redondo Beach (the "City") provides the Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net assets, changes in net assets, and fund disclosures are discussed in more detail later in the report.

Financial Highlights - Primary Government

- ♦ *Government-Wide Highlights*

Net Position - Assets of the City exceeded its liabilities at fiscal year ending June 30, 2013 by \$251.1 million - assets for governmental activities exceeded liabilities by \$183.9 million and assets for business-type activities exceeded liabilities by \$67.1 million.

Changes in Net Position - The City's net assets increased \$9.0 million in fiscal year 2012-2013. Net position of governmental activities increased \$1.4 million, and net assets of business-type activities increased \$7.6 million.

- ♦ *Fund Highlights*

Governmental Funds - At the close of fiscal year 2012-2013, the City's total governmental funds reported a fund balance of \$42.5 million, an increase of \$2.4 million from the prior year. Highlighted below are this year's major funds included in this grouping.

General Fund - The fund balance of the General fund (includes Special Revenue – PERS Reserve Fund of \$3.8 million) on June 30, 2013 was \$17.6 million, an increase of \$4.2 million from the prior year.

Other Intergovernmental Grants Special Revenue Fund – The fund balance of the Special Revenue – Other Intergovernmental Grants Fund on June 30, 2013 was negative \$1.0 million, a decrease in the negative fund balance by \$275,542 from the prior year.

Debt Service – Public Financing Authority Fund - The fund balance of the Debt Service – Public Financing Authority Fund on June 30, 2013, was \$6.8 million, a decrease of \$544,133 from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

- ♦ *Statement of Net Position*

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

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

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

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

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

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

Fund Financial Statements

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

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

- ♦ *Governmental Funds*

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

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

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

- ♦ *Proprietary Funds*

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

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

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

- ♦ *Fiduciary Funds*

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

Notes to the Financial Statements

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

Required Supplementary Information

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

**City of Redondo Beach's Statement of Net Position
Fiscal Year Ended June 30, 2012 and 2013**

	Governmental Activities		Business-Type Activities		Total	
	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012
Current and Other Assets	\$ 74,928,984	\$ 82,577,571	\$ 36,502,231	\$34,046,422	\$111,431,215	\$ 116,623,993
Capital Assets, net depreciation	142,980,777	143,933,767	43,803,140	40,159,444	186,783,917	184,093,211
Total Assets	217,909,761	226,511,338	80,305,371	74,205,866	298,215,132	300,717,204
 Long-Term Liabilities						
Outstanding	24,631,047	24,743,229	11,479,916	11,971,704	36,110,963	36,714,933
Other Liabilities	9,305,294	19,233,339	1,678,597	2,660,186	10,983,891	21,893,525
Total Liabilities	33,936,341	43,976,568	13,158,513	14,631,890	47,094,854	58,608,458
 Net investment in capital assets	142,096,683	143,049,830	38,936,171	34,957,595	181,032,854	178,007,425
Restricted	17,703,725	17,861,803	-	-	17,703,725	17,861,803
Unrestricted	24,173,012	21,623,137	28,210,687	24,616,381	52,383,699	46,239,518
Total Net Position	\$183,973,420	\$182,534,770	\$ 67,146,858	\$59,573,976	\$251,120,278	\$242,108,746

Total Assets:

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

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

Total Liabilities:

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

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

Net Position

The chart above reflects the City's combined net position (governmental and business-type activities) of \$251.1 million at the close of fiscal year ending June 30, 2013.

The largest portion of the City's total net position (72.1%) reflects investment in capital assets (e.g., land, streets, sewers, buildings, machinery, and equipment) net of outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net position (27.9%) represents resources that are either unrestricted or subject to external restrictions (e.g., certain capital projects, community development, debt services).

Changes in Net Position

Also noted in the chart above, the City's fiscal year 2012-2013 total net position increased by \$9.0 million, or 3.7%, from the prior year. The governmental activities net position increased \$1.4 million, or 0.79%, and business-type activities net position increased \$7.6 million, or 12.7%.

The increase in net position of governmental activities of \$1.4 million was due to an increase in total assets of \$9.1 million. Within total assets, the increase in capital assets, net of accumulated depreciation, was primarily attributable to Fire Station 1 roof repair and Harbor Patrol Facility Replacement projects. These capital asset additions also resulted in a corresponding increase in Investments in Capital Assets, Net of Related Debt. The increase in net assets was offset by decrease in liabilities of \$11.5 million. Other liabilities, specifically accounts payable, decreased mainly due to the timing of payments to vendors. Long-term liabilities, specifically claims and judgments payable increased, due to higher reserves related to workers' compensation and general liability claims. Increases in workers' compensation claims are attributable to an increase in reserves based on future legislation or ballot initiatives that may change statutory benefit levels and the outcomes of future administrative proceedings and litigation. Increases in general liability claims are attributable to higher reserves based on future legislation that may affect the tort liability system, and the outcomes of litigation and settlement negotiations primarily related to Police Department firing range.

Business-type activities net assets increased by \$7.6 million or 12.7%, the increase was primarily due to the Harbor Patrol Facility Replacement and Seaside Lagoon rehabilitation projects and lower investment earnings.

City of Redondo Beach's Change in Net Position
Fiscal Year Ended June 30, 2012 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012
Revenues:						
Program revenues:						
Charges for services	\$ 21,970,592	\$ 20,351,312	\$ 16,843,858	\$ 15,864,430	\$ 38,814,450	\$ 36,215,742
Operating grants and contributions	9,925,853	8,590,969	1,672,668	1,395,363	11,598,521	9,986,332
Capital grants and contributions	705,357	4,582,744	2,545,504	-	3,250,861	4,582,744
Total program revenues	32,601,802	33,525,025	21,062,030	17,259,793	53,663,832	50,784,818
General revenues:						
Property taxes	30,728,698	28,335,561	-	-	30,728,698	28,335,561
Sales taxes	10,228,355	9,594,901	-	-	10,228,355	9,594,901
Utilities users taxes	7,711,580	7,422,089	-	-	7,711,580	7,422,089
Other taxes	8,703	-	-	-	8,703	-
Motor vehicle license	34,912	33,693	-	-	34,912	33,693
Transient occupancy taxes	3,693,144	3,533,501	-	-	3,693,144	3,533,501
Franchise taxes	1,796,606	1,950,934	-	-	1,796,606	1,950,934
Business license taxes	1,018,677	1,203,591	-	-	1,018,677	1,203,591
Use of money and property	1,212,032	3,371,724	69,851	241,958	1,281,883	3,613,682
Other revenues	1,499,306	2,831,748	2,674,174	181,532	4,173,480	3,013,280
Gain (loss) on sale of capital asset	35,578	73,574	-	-	35,578	73,574
Total general revenues	57,967,591	58,351,316	2,744,025	423,490	60,711,616	58,774,806
Total revenue	90,569,393	91,876,341	23,806,055	17,683,283	114,375,448	109,559,624
Expenses:						
General government	11,974,780	8,560,957	-	-	11,974,780	8,560,957
Public safety	43,141,036	43,020,839	-	-	43,141,036	43,020,839
Public works	11,588,895	10,589,076	-	-	11,588,895	10,589,076
Cultural and leisure services	10,933,176	7,389,274	-	-	10,933,176	7,389,274
Housing and community development	10,085,882	13,822,831	-	-	10,085,882	13,822,831
Interest on long-term debt	266,651	637,624	-	-	266,651	637,624
AB 1484 demand payment	-	9,914,969	-	-	-	9,914,969
Harbor Tidelands	-	-	4,998,098	7,689,071	4,998,098	7,689,071
Harbor Uplands	-	-	3,657,127	3,952,061	3,657,127	3,952,061
Wastewater	-	-	1,880,835	3,196,442	1,880,835	3,196,442
Solid Waste	-	-	3,610,925	3,431,017	3,610,925	3,431,017
Transit	-	-	3,288,696	3,113,076	3,288,696	3,113,076
Total expenses	87,990,420	93,935,570	17,435,681	21,381,667	105,426,101	115,317,237
Change in net position before transfers	2,578,973	(2,059,229)	6,370,374	(3,698,384)	8,949,347	(5,757,613)
Transfers	(1,202,508)	(1,017,605)	1,202,508	1,017,605	-	-
Extraordinary Item						
Gain (loss) on dissolution of Redevelopment Agency	-	27,858,112	-	-	-	27,858,112
Change in net position	1,376,465	24,781,278	7,572,882	(2,680,779)	8,949,347	22,100,499
Net position, beginning of year	182,534,770	157,753,492	59,573,976	62,254,755	242,108,746	220,008,247
Net position, end of year	\$ 183,911,235	\$ 182,534,770	\$ 67,146,858	\$ 59,573,976	\$ 251,058,093	\$ 242,108,746

Levels of revenues and expenditures also impact current assets and other liabilities and, therefore, cause changes in net assets. As reflected above, total revenues increased in fiscal year 2012-2013 by \$4.9 million, or 4.5%. Major increases in program revenues are reflected mainly in:

- ♦ Charges for services due to an increase in rents and percentages in the Harbor Uplands Fund and growth in parking meter and structure fees, and increased rates for trash collection.
- ♦ General revenues increased primarily due to increases in property tax, sales tax, transient occupancy tax, and utility user's tax.

These increases were offset by decreases in Franchise taxes, Business license tax and use of money and property. The substantial decrease in use of money and property was due to the decline in investment earnings as a result of the slow recovering economy. The decrease in franchise tax and business license tax was also a result of the slow recovery of the economy.

Citywide total expenses decreased \$9.8 million, or 8.6%, when compared to fiscal year 2011-2012. The substantial decrease in expenses was primarily related to AB 1484 demand payment (Low and Moderate Income Housing Fund). There were also significant decreases in capital improvement projects and personnel cost related to the wastewater fund. Offsetting these decreases are increases in general government, public works, and culture and leisure services. Although personnel costs were lower resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions, these program expenses increased due to rises in PERS, workers' compensation and general liability claims. Increases in workers' compensation claims are attributable to an increase in reserves based on future legislation or ballot initiatives that may change statutory benefit levels and the outcomes of future administrative proceedings and litigation. Increases in general liability claims are attributable to higher reserves based on future legislation that may affect the tort liability system, and the outcomes of litigation.

Governmental Activities

As reflected in the Changes in Net Position schedule above, the total governmental activity expenses were \$88.0 million in fiscal year 2012-2013; and total revenues from governmental activities were \$90.6 million, of which 36.0% were derived from program revenues consisting of charges for services and grants.

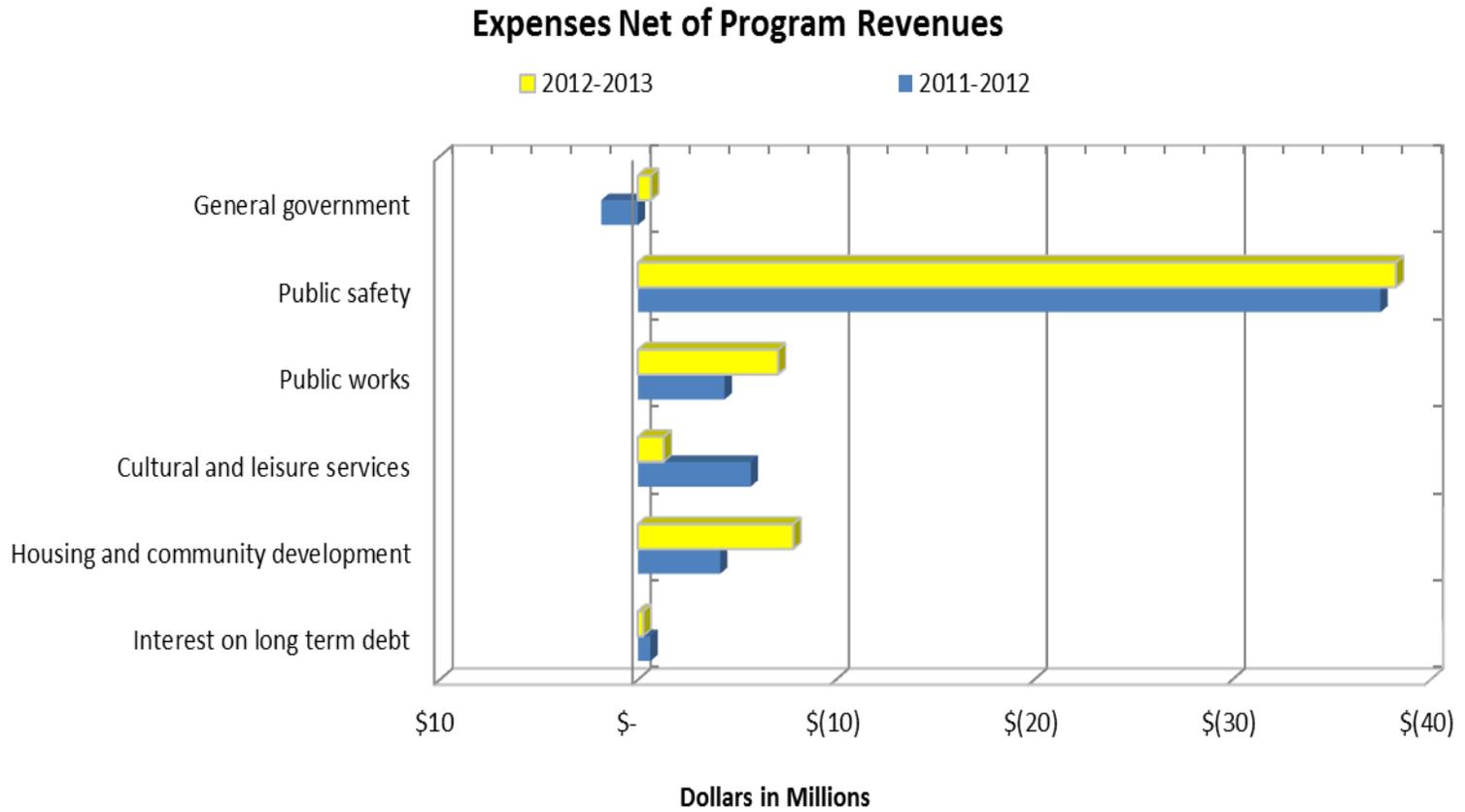
On the following chart, the governmental activity expenses net of program revenues, decreased \$5.0 million, or -8.0%, in fiscal year 2012-2013. Net expenses decreased substantially due to AB 1484 demand payment (Low and Moderate Income Housing Fund). There were also significant decreases in expenses related to general government, culture and leisure services and interest on long term debt. The decrease in general government resulted primarily from reductions in personnel costs as a result of a citywide hiring freeze, employee concessions and elimination of funding for selected filled and vacant positions. Culture and leisure services net expenses decreased due and reduction of construction expenses related to completion of project during prior year. The reduction of the balance of outstanding bonds also allows for a reduction in interest expense in addition to a reduction of interest on long term debt.

Offsetting the above decreases are increases in public works and housing and community development are related to the construction expenses of the harbor patrol facility and seaside lagoon rehabilitation projects. Although personnel costs were lower resulting from a citywide hiring freeze, employee concessions, and elimination of funding for selected filled and vacant positions, these program expenses increased due to more than offsetting rises in workers' compensation and general liability claims.

Governmental Activities:	Impact to Net Assets		Percent
	2012-2013	2011-2012	Increase (Decrease)
Expenses Net of Program Revenues*			
General government	\$ (659,349)	\$ 1,855,508	-136%
Public safety	(38,262,249)	(37,482,231)	2%
Public works	(7,054,804)	(4,381,279)	61%
Cultural and leisure services	(7,297,631)	(5,696,885)	28%
Housing and community development	(1,847,934)	(4,153,065)	-56%
Interest on long term debt	(266,651)	(637,624)	-58%
AB 1484 demand payment	-	(9,914,969)	100%
Total Governmental Activity Expenses			
Net of Program Revenues	\$ (55,388,618)	\$ (60,410,545)	-8%

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

The chart below is a graphical representation of the schedule above

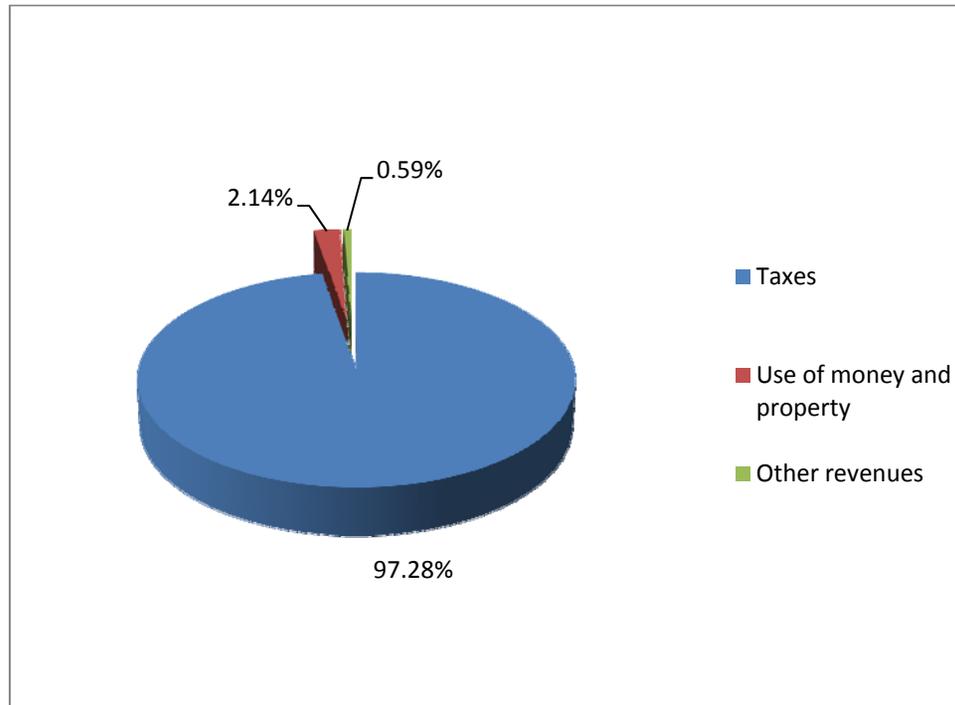


General Revenues Related to Governmental Activities

<u>General Revenues</u>	<u>2012-2013</u>	<u>2011-2012</u>
Taxes	\$ 55,220,675	\$ 52,074,270
Use of money and property	1,212,032	3,371,724
Other revenues	332,376	1,887,717
Total General Revenues	<u>\$ 56,765,083</u>	<u>\$ 57,333,711</u>

General revenues are all other revenues not attributable to a specific program and, therefore, not categorized as program revenues. These revenues include taxes, use of money and property, and other revenues and decreased 0.9% over prior year. The largest decrease was use of money and other revenues.

General Revenues



Business-Type Activities

The City has five business-type activities: Harbor Tidelands, Harbor Uplands, Solid Waste, Wastewater, and Transit. The total net position of the business-type activities increased by \$7.6 million from the prior year.

Harbor Tidelands is used for the operations of small boat harbor facilities available to the general public, including related pier activities. This fund is restricted under the City Tidelands Trust Agreement with the State of California. In fiscal year 2012-2013, the total net position of the Harbor Tidelands increased \$5.5 million from prior year.

Harbor Uplands is also used for the operations of small boat harbor facilities available to the general public, including related pier activities. However, the use of these funds is subject only to the decisions of the City Council. In fiscal year 2012-2013, the total net position of Harbor Uplands increased by \$161,406 from prior year.

Wastewater is funded by a capital facility charge, or more commonly referred to as a sewer user fee. These funds are used to support the operations of the wastewater fund, which is restricted to sewer infrastructure improvements. In fiscal year 2012-2013, the total net position of Wastewater increased \$1.9 million from the prior year.

Solid Waste is the City's comprehensive solid waste program, which includes refuse collection, recycling, and hazardous waste disposal services. The solid waste program is supported through user service fees. In fiscal year FY 2012-2013, the total net position of Solid Waste decreased \$1,231 from prior year.

Transit operations provide transportation services mainly to the cities of Redondo Beach, Hermosa Beach, and Manhattan Beach. The transit system is supported through bus passes, passenger fares, contributions from other local jurisdictions, Transportation Development Act Article 4 funding, and Propositions A and C discretionary funding. In fiscal year 2012-2013, the total net position of Transit did not change from prior year.

INTERNAL SERVICE FUNDS

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

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

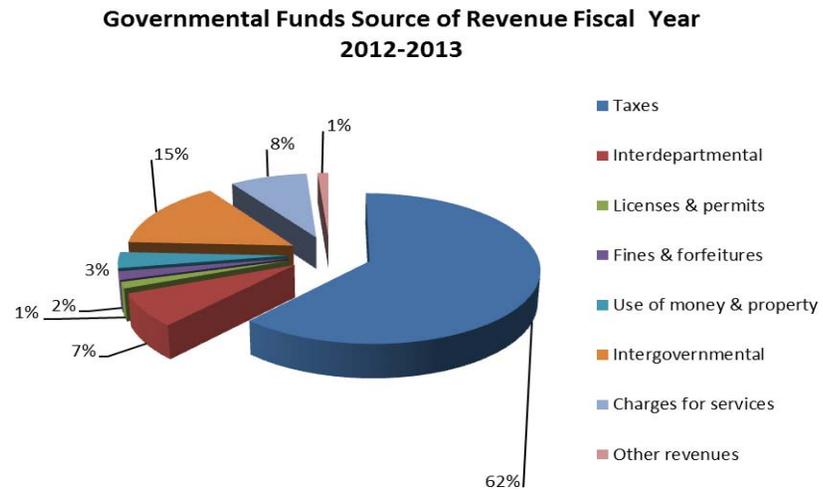
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-Wide financial statements displayed previously, the fund financial statements which follow are not reflected on a full accrual basis. Therefore,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

Governmental Funds

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

Governmental Funds - The following schedule is a summary of governmental fund revenues for fiscal year ended June 30, 2013, and includes Major and Non-Major Funds. It reflects the amount and percent of increase or decrease of each source of revenue compared to the prior year.

Source of Revenue	Amount FY 12-13	Percent of Total	Increase (Decrease) FY 11-12	Percent Increase (Decrease)
Taxes	\$ 55,882,844	62%	\$ (4,006,901)	-7.2%
Interdepartmental	6,656,858	7%	(407,230)	-6.1%
Licenses & permits	1,259,505	1%	83,917	6.7%
Fines & forfeitures	1,663,966	2%	(29,180)	-1.8%
Use of money & property	3,146,954	3%	613,547	19.5%
Intergovernmental	13,380,088	15%	2,959,776	22.1%
Charges for services	7,461,642	8%	24,371	0.3%
Other revenues	1,062,143	1%	1,885,905	177.6%
Total	\$ 90,514,000	100%	\$ (4,552,717)	-5.0%

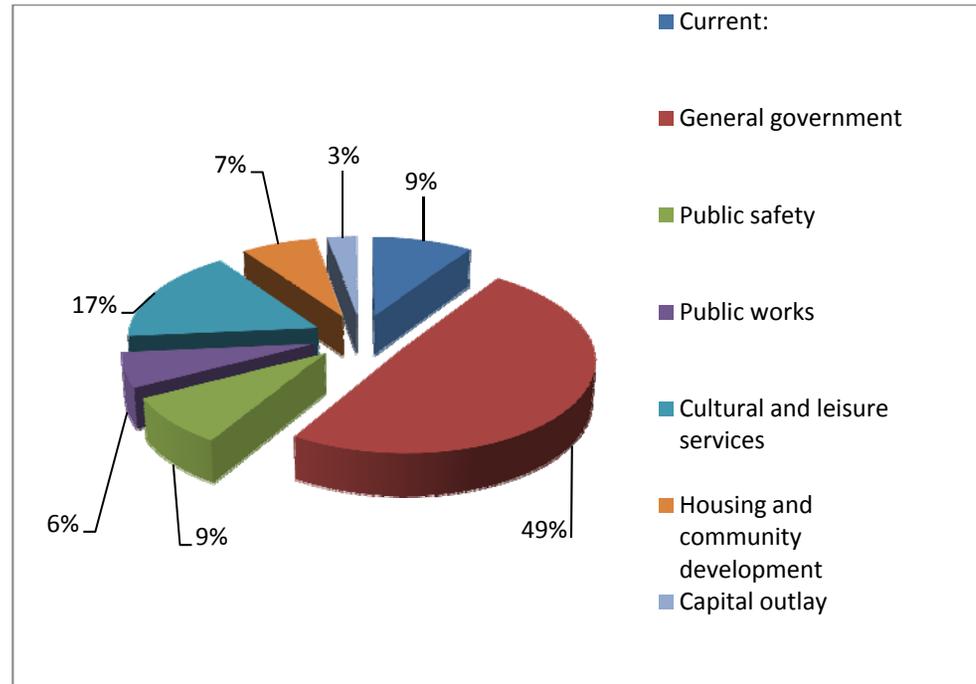


Total governmental fund revenues decreased \$4.6 million, or -5.0%, from fiscal year 2012-2013. Intergovernmental decreased \$407,230 or 6.1%, due to reimbursements received for completion of grant funded projects. Charges for services decreased \$9,107 or 0.1%, due to decreases in planning fees and plan check fees. Other revenues increased \$1.9 million, or 182.2%, in addition, there were reductions of community donations to various areas of the City.

The following schedule is a summary of governmental fund expenditures by function for fiscal year ended June 30, 2013, and includes both Major and Non-Major Funds. It reflects the amount and percent of increase or decrease for each functional category of expenditures compared to the prior year.

Governmental Funds Expenditures by Categories Fiscal Year 2012-13

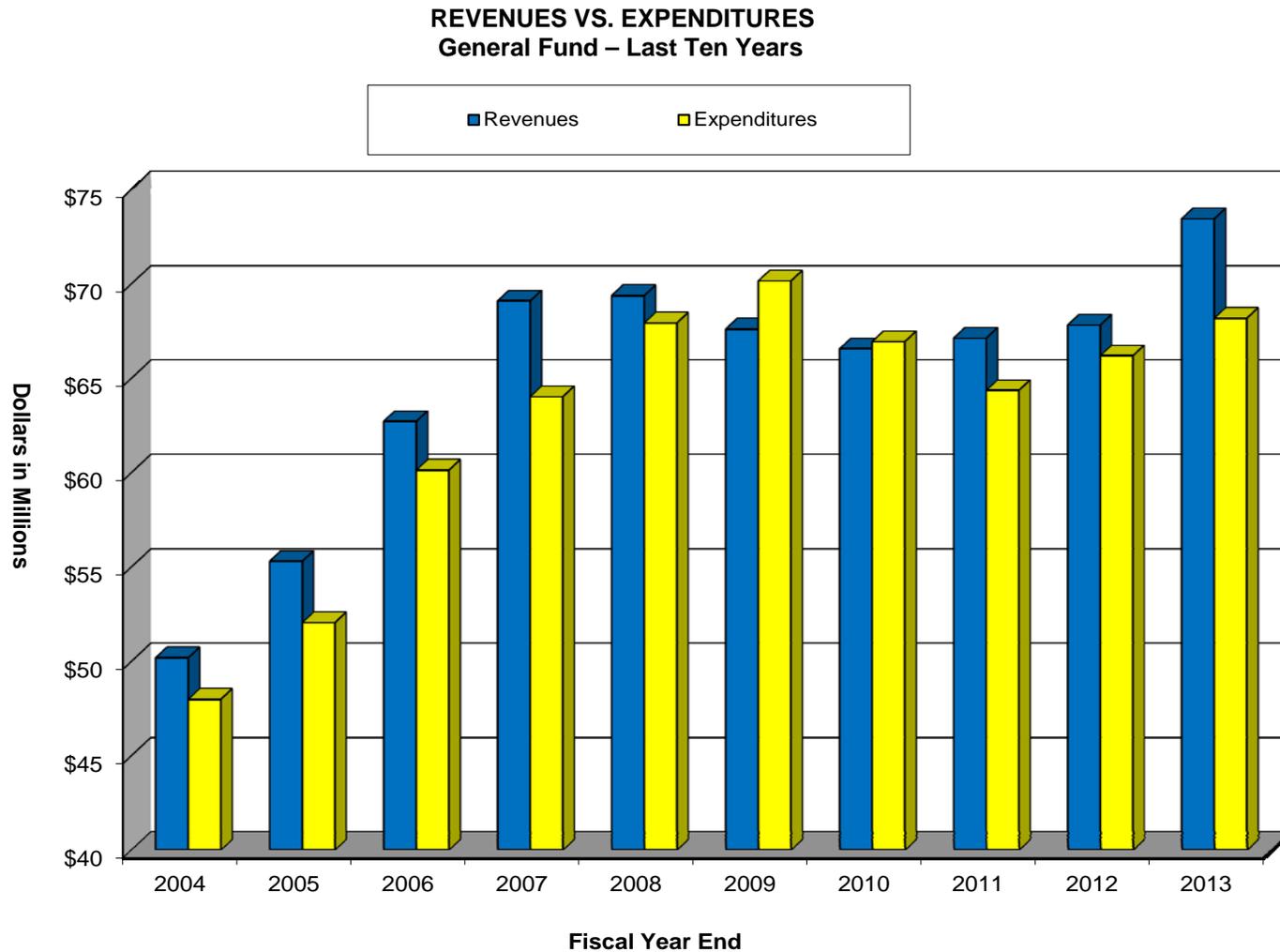
Expenditures	Amount FY 12-13	Percent of Total	Increase (Decrease) FY 11-12	Percent Increase (Decrease)
Current:				
General government	\$ 9,285,279	11%	\$ 1,200,104	12.9%
Public safety	42,480,962	49%	236,947	0.6%
Public works	9,212,829	11%	1,816,963	19.7%
Cultural and leisure services	8,567,569	10%	3,285,372	38.3%
Housing and community development	9,360,093	11%	(4,189,655)	-44.8%
Capital outlay	6,357,661	7%	866,303	13.6%
Debt service	1,650,903	2%	(740,473)	-44.9%
AB 1484 Demand Payment	-	0%	(9,914,969)	-100.0%
	<u>\$ 86,915,296</u>	<u>100%</u>	<u>\$ (7,439,408)</u>	



Total governmental fund expenditures decreased \$7.4 million, or -8.5%, from fiscal year 2012-2013. As mentioned earlier, the variances are attributable to:

- General government increased by \$1.2 million, or 12.9%, primarily due to increases in attorney fees. Public safety increased by \$236,947, or .6%, due to personnel costs.
- Public Works increased by \$1.8 million or 19.9% and Cultural and leisure services increased by \$3.3 million, or 38.3%, due to increased personnel costs, as well as construction expenses related to LED Streetlight Replacement Project, Catalina Harbor Advanced Traffic Signal Management project, Aviation Gym Skylight project, Dale Page and Dominquez Park ADA Restroom improvement projects.
- Housing and community development substantially decreased by \$4.2 million, or 44.8%, due to the housing Section 8 voucher program and the reduction in associated administrative costs, and impacts of sequestrations imposed by the Federal Government.
- Capital outlay expenditures increased by \$866,303 or 13.6%, primarily due to completion of projects and, therefore, reduced construction expenses.
- Debt service expenditures substantially decreased by \$740,473 or 44.9%. The substantial decrease was due to the refinancing of the Public Financing Authority 2001 Refunding Revenue Bonds.

Although there are three major funds in the City of Redondo Beach which are reported on page one on the MD & A, the following discussions focuses on the General Fund, which is the major operating fund of the City.



Impacts of both increases and decreases to General Fund revenues resulted in a net increase of \$5.6 million, or 8.3%, from fiscal year 2011-2012. The increases in revenue were due to increases in property taxes, sales taxes, utilities users taxes and TOT taxes resulted from a slowly recovery economy and travel industries. The increase in these revenues was slightly offset by decreases related to lower investment earnings, franchise tax, business license tax and use of money and property.

General Fund Balance

The fund balance of the General Fund as of June 30, 2013 was \$17.6 million (includes Special Revenue – PERS Reserve Fund of \$3.8 million), an increase of \$4.2 million, when compared to the prior year. The City Council approved the constraints of the General Fund balance reflected below.

	FY 10-11	FY 11-12	FY 12-13
General Fund Contingency	\$ 5,595,596	\$ 5,712,942	\$ 5,889,783
Compensated Absences	1,088,635	1,108,239	607,602
Carryovers designations	1,283,994	936,283	1,358,673
Encumbrances	428,183	580,110	634,744
Legal Fees	313,000	-	-
Self-Insurance Program Fund Allocation	350,000	1,375,000	2,650,000
Health Ins Premium Increases	65,000	41,673	-
MUNIS Upgrades	50,000	-	-
PERS	4,007,236	-	-
Petty Cash	17,300	17,300	17,050
CalPers	-	-	3,813,747
Compensation Restoration - POA	-	151,904	737,196
Compensation Restoration - Management & Confidential	-	-	10,222
Compensation Restoration - Other Bargaining Groups	-	-	113,830
Increase Offer to Unions	-	-	332,381
Assigned Contingency	-	-	1,000,000
Unassigned Balance	25,258	-	272,083

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended fiscal year 2012-2013 budget totaled \$72.9 million, excluding transfers out and including net amendments of \$4.3 million to the originally adopted budget. The City Council adopts budget adjustments during the year to reflect both changed priorities and consideration of events that took place subsequent to the budget adoption. The amendments can be briefly summarized as follows:

- Appropriation of \$370,000 for special and run-off elections..
- Appropriations of \$200,000 for the intervener participation in the California Energy Commission's review of the AES Corporation's application for a new power plant application.
- Funding of prior-year encumbrances of \$680,108.
- Funding of carry-over appropriations of \$936,283.
- Increased mid-year appropriations by \$2,099,208.

Budget amendments were funded from/credited to available fund balance. During the year, however, revenues exceeded budgetary estimates by approximately \$540,000 and expenditures were \$5.2 million less than budgetary estimates, primarily due to personnel vacancies and contractual services that were not completed by year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the City, including infrastructure assets are those assets used in the performance of the City's functions. At June 30, 2013, net capital assets of the governmental and business-type activities totaled \$143 million and \$43.8 million, respectively. Depreciation on capital assets is recognized in the Government-Wide financial statements.

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

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

Prior to FY 2008-2009, the City's PQI rating, an amalgam of the PCR and the International Roughness Index (IRI) established by the World Bank, was based on a 10.0 scale. In fiscal year 2008-2009, the PQI rating was converted to a 100 point scale to make it comparable to alternative pavement rating methods. City policy was to achieve an average rating of 80 for all streets by fiscal year 2008-2009 and maintain this rating on a go-forward basis. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of June 30, 2013 the City's street system was rated at a PQI of 83.

The City's budget for street maintenance for the fiscal year ended June 30, 2013 was \$10.2 million. Actual expenditures were \$2.7 million, with the remaining budget carried forward as continuing appropriations. The City is judiciously investing in this infrastructure asset as part of the five-year Capital Improvement Program and will continue to rehabilitate and maintain its streets in order to achieve this goal. The estimated expenditures required to maintain and improve the overall condition of the streets from July 1, 2013 through June 30, 2014 is a minimum of \$5.2 million.

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

	Original Cost	Accumulated Depreciation	Book Value
Capital Assets - Governmental Activities			
Land	\$ 16,522,947	\$ -	\$ 16,522,947
Buildings and Improvements	45,979,533	(16,982,445)	28,997,088
Equipment, Vehicles, Machinery	23,496,354	(14,659,176)	8,837,178
Work in Progress	1,003,491	-	1,003,491
Construction in Progress	5,717,382	-	5,717,382
Infrastructure	126,984,106	(45,081,415)	81,902,691
Total	\$ 219,703,813	\$ (76,723,036)	\$ 142,980,777
Capital Assets - Business-Type Activities			
Land	\$ 11,323,255	\$ -	\$ 11,323,255
Construction in Progress	684,062	-	684,062
Buildings and Improvements	30,708,383	(15,266,076)	15,442,307
Equipment, Vehicles, Machinery	4,337,465	(13,471,564)	(9,134,099)
Infrastructure	25,487,615	-	25,487,615
Total	\$ 72,540,780	\$ (28,737,640)	\$ 43,803,140

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

DEBT ADMINISTRATION

Debt service funds are used to account for the accumulation of resources for payment of interest and principal on bonds issued by the City. The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita for the fiscal year 2012-2013 are provided below. These indicators provide important information for management and concerned citizens, as well as potential investors.

	<u>Amount</u>	<u>Ratio of Debt to Assessed Value of Property</u>	<u>Debt per Capita</u>
Net Direct: Bonded Debt	\$ 1,334,000	0.11%	\$ 198.01

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fiscal year 2012-2013 finds the City's finances have stabilized, but at a much lower level than forecasted. More work has to be done as we maneuver through the next financial and economic challenges. We face strong headwinds from high unemployment, high oil prices, housing defaults, increasing pension and health care costs, accelerated regional and global competition, record level state and federal deficits, raising business failures, and low confidence in government. General Fund revenues from outside sources are projected to decrease \$1,345,780 from the fiscal year 2012-2013 midyear budget. Budgetary expectations reflect:

- Property Tax revenue for fiscal year 2013-2014 is projected to decrease by \$739,607, or 3.5%, to \$20,500,000, excluding property tax in lieu of VLF and homeowners' exemptions. This decrease is primarily due to the FY 2012-13 one-time receipts (\$1.6 million) of property tax representing the City's portion of the State's/County's distribution of the former Redevelopment Agency's housing funds. Overall, the economy is slowly recovering, with some improvement in the housing market. Redondo Beach's housing market has been fairly stable through the housing downturn due to its coastal location. Property tax revenue is the City's number one source of operating revenue.
- Sales and Use Tax revenue is projected to increase \$324,000, or 3.2%, to \$10,498,000. Sales tax revenue is generally up due to new businesses replacing closures and an increase in consumer spending. This projection is conservatively based on analysis of current trends, including annual adjustments to the State "triple flip" sales tax apportionment, receipts from the City's largest sales tax sources, levels of consumer disposable income, heightened regional sales tax competition and moderating consumer confidence.

- Utility Users' Tax (UUT) revenue is projected to decline by \$200,000, or 2.5%, to \$7,800,000 with consumers' conservation efforts and business closures due to the depressed economy. This estimate is based upon analysis of the projected performance from each of the categorical components of the City's UUT tax base, including electricity, natural gas, telecommunications, water, and cable television. UUT revenue provides support for essential City operational services.
- Franchise Fees are projected to increase by \$75,000, or 4.0%, to \$1,950,000 for FY 2013-14. Components of franchise fee revenue include Time Warner cable television operations, Southern California Edison electricity franchise, Southern California Gas operations, Verizon, and taxicab franchise operations. With the exception of revenues from Southern California Gas, revenues from franchise fees reflect moderate increases, which is in line with growth in local operations. Cable television franchise fees represent about 50% of the overall franchise fee revenue estimate for FY 2013-14, while projected revenue from the electricity franchise represents about 20%. The franchise revenue generated from the sale and transport of natural gas utilized to power the local AES power plant represents approximately 20% of the total franchise fee estimate. Cyclical uncertainties of the deregulated energy environment and their impacts upon the productive utilization rate of the AES power plant require a conservative estimate from this revenue source.
- Investment Earnings for the General Fund for fiscal year 2013-14 are projected to decrease by \$210,000, or 35.0%, to \$390,000. This decline is attributable to lower interest rates within the investment marketplace, a reduction in the overall size of the portfolio and the financial unfeasibility of the annual TRAns program. The three major components of the portfolio are: liquid investments with the State Local Agency Investment Fund, and both Federal Agency and high-grade corporate Medium-Term Note Investments structured with a 1 to 5 year investment maturity matrix. Enhanced cash management activities serve as core elements of the City Treasurer's comprehensive cash management program. In addition, implementation of a strategically focused capital improvement program (CIP) cash management plan will serve to enhance investment returns from CIP funding sources, while ensuring CIP program liquidity.

Budgeted General Fund appropriations decreased 2.1%, or \$1,468,867, to \$68,160,062, from the midyear budget. Personnel costs increased .8%, primarily due to the Public Employees Retirement System (PERS) employer contribution rate increases from 14.080% to 14.526% for the miscellaneous group and from 38.386% to 40.391% for public safety. When added to the employee contribution rates of 7% and 9% for the miscellaneous and public safety groups, respectively, the total rates used in calculating the fiscal year 2012-2013 personnel amounts are 21.526% and 49.391%. Internal service fund appropriations decreased by approximately \$3.6 million from FY2011-12 budgeted amounts. The largest decreases are due to the Emergency Communications and Vehicle Replacement Funds, which had one-time equipment replacement needs in FY 2011-12 that are yet to be reflected in FY 2012-13. The FY 2011-12 maintenance and operations midyear budget is much higher than the FY 2012-13 because the midyear budget also reflects carryover appropriations of \$1.7 million, including carryover encumbrances of about \$428 thousand. These carryovers increase the FY 2011-12 amounts and will not be included in FY 2012-13 until year-end adjustments are made.

During FY 2012-2013, Redondo Beach experienced a 2.7% change in real property assessed valuations, compared to last year's 3.11%. Hotel occupancy rates decreased by 3.3%, and Transient Occupancy Tax revenue increased by 4.5%, due to improved visitation and increased days of stay. The Utility users' tax revenue reflected an increase of 3.90% in FY 2012-2013. Redondo Beach continues to exceed the countywide average in total taxable retail sales, ranking 31 out of 89 cities. Redondo Beach experienced a decrease in its unemployment rate from 6.4% in FY 2011-2012 to 5.4% in FY 2012-2013, which is well below the Los Angeles County and State of California FY 2012-2013 unemployment rates of 9.2% and 8.9%, respectively.

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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