

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Redondo Beach, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. *Financial Reporting Entity*

The City was incorporated on April 29, 1892, under the laws of the State of California and enjoys all the rights and privileges applicable to a Charter City. It is governed by an elected Mayor and a five-member council.

As required by GAAP, the financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units. The following entities are reported as blended component units:

*The Parking Authority of the City of Redondo Beach* (Parking Authority) was established on March 3, 1969, pursuant to the provisions of the Streets and Highway Code of the State of California. The principal purpose of the Parking Authority is to provide public off-street parking within the City. The Parking Authority serves all the citizens of the government and is governed by a board comprised of the government's elected council.

*The Redondo Beach Housing Authority* (Housing Authority) was formed on June 2, 1975, for the purpose of providing affordable, decent housing for lower income residents of the City. The Housing Authority operates the Fair Housing and Section 8 housing programs. The Housing Authority serves all the citizens of the government and is governed by a board comprised of the government's elected council.

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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 Position and a Statement of Activities and Changes in Net Position. 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, deferred outflows of resources, deferred inflows of resources, and liabilities, including capital assets (as well as infrastructure assets) and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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 Position 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 Position, 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

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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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

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

Revenues are recorded when received in cash, except for revenues subject to accrual (generally 60 days after year-end), which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, franchise taxes, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City reports the following major governmental funds:

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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

- 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.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. 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.

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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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

- Wastewater Fund - accounts for the capital facility charge and a sewer use fee. The charges are designed to reimburse the City's wastewater system for the capital and maintenance and operations costs necessary for providing wastewater capacity to system users. These charges are 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.

C. *Use of Restricted/Unrestricted Net Position*

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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

The City participates in an investment pool managed by the State of California, titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

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

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

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

E. *Restricted Cash and Investments*

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects. Cash and investments are also restricted for deposits held for others within the enterprise funds.

F. *Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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

G. *Interfund Transactions*

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

H. *Capital Assets*

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 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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

H. *Capital Assets, (Continued)*

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

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

Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, concrete curb and gutters, sidewalks, medians, etc. Subsystem detail is not presented in these financial statements; however, the City maintains detailed information on these subsystems.

In June 2013, a visual survey of all pavement segments was conducted to assess the existing surface condition of each of the individual pavement segments. Upon completion of the study, a Pavement Quality Index (PQI) was calculated for each segment in the City's pavement network to reflect the overall pavement condition. Ratings ranged from 0 to 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 beginning in 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 2011, 2012, and 2013, the City's street system was rated at a PQI of 83 on the average.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

H. *Capital Assets, (Continued)*

For a detailed description of the Modified Approach, see the Required Supplementary Information section of this report.

For all other infrastructure systems, the City elected to use the Basic Approach for infrastructure reporting. As such, the City records the assets at historical cost and depreciates them over their useful lives, and regularly evaluates them for impairment. Expenditures that extend the life of the asset are capitalized.

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

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 Position.

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.

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

K. *Compensated Absences Payable*

Only the short-term liability for compensated absences (the amount due to employees for future absences, such as vacation and compensatory time, which are attributable to services already rendered) is reported as a current liability in the governmental funds and only if they have matured, for example, as a result of employee resignations and retirements; the long-term liability is reported in the government-wide financial statements. The short-term liability is the amount that will be liquidated with current financial resources and is expected to be paid during the next fiscal year. All of the liability for compensated absences applicable to proprietary funds is reported in those funds.

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Employees may accrue from two to three times their annual accrual rate. Upon termination an employee will be paid for any unused accrued vacation pay. Sick leave is payable when an employee is unable to work because of illness. Unused sick leave is forfeited upon termination.

L. *Claims and Judgments Payable*

The short-term and long-term claims are reported as liabilities in the Self-Insurance Program Internal Service Fund. The short-term liability which will be liquidated with *current financial resources* is the amount of 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.

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

M. *Long-Term Debt, (Continued)*

Fund Financial Statements

The fund financial statements do not present long-term debt. Consequently, long-term debt is a reconciling item and is shown in the Reconciliation of the Balance Sheet of Governmental Funds to the Government-Wide Statement of Net Position.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount.

Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

N. *Net Position*

In the Government-Wide Financial Statements, net position is classified in the following categories:

Net investment in capital assets - 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 Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

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.

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

O. *Fund Balances, (Continued)*

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 when the City Council passes a resolution that places specific constraints on how the resources may be used. The City Council can modify or rescind the resolution at any time through passage of an additional resolution.

Assigned - Assigned fund balances comprise amounts intended to be used by the government for specific purposes, but are neither restricted nor committed. Intent is expressed when the City council approves which resources should be assigned to expenditures of particular purposes during the adoption of the annual budget. The City Manager uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's fund financial statements.

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:

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

O. *Fund Balances, (Continued)*

- Restricted
- Committed
- Assigned
- Unassigned

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 20, 2012	Unsecured, redemptions, and SB813 taxes
December 20, 2012	Homeowners' exemption, secured, and SB813 taxes
January 18, 2013	Homeowners' exemption, secured, and SB813 taxes
February 20, 2013	Redemptions, secured, and SB813 taxes
March 20, 2013	Unsecured and SB813 taxes
April 19, 2013	Secured and SB813 taxes
May 20, 2013	Redemptions, homeowners' exemption, secured, and SB813 taxes
June 20, 2013	Homeowners' exemption and SB813 taxes
July 19, 2013	Secured and SB813 taxes
August 20, 2013	Secured, redemptions, unsecured, and SB813 taxes

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

*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.

*R. New GASB Pronouncement*

Beginning with the current fiscal year, the City implemented GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position.

Deferred outflows of resources are transactions that result in the consumption of net assets in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position.

Deferred inflows of resources are transactions that result in the acquisition of net assets in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred outflows of resources are required to be presented separately after liabilities on the statement of net position.

**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:			
Public works	\$ 5,200,733	\$ 5,236,471	\$ (35,738)
Public Financing Authority Debt Service:			
Principal retirement	76,812	1,380,000	(1,303,188)
Interest and fiscal charges	64,303	270,903	(206,600)
Non-Major Funds:			
Proposition A Special Revenue:			
Transfers out	1,262,243	1,284,698	(22,455)
Proposition C Special Revenue:			
Housing and community development	1,764	28,393	(26,629)
Disaster Recovery Special Revenue:			
Public safety	17,060	17,195	(135)
Subdivision Park Trust Special Revenue:			
Housing and community development	-	5,410	(5,410)
Capital Improvement Projects Capital Projects:			
Transfers out	456,175	1,209,382	(753,207)

B. Deficit Fund Balance

The following funds had a deficit balance as of June 30, 2013:

Major Funds:	
Other Intergovernmental Grants	(1,044,377)
Non-Major Funds:	
Street Landscaping and Lighting District	(5,959)
Local Transportation Article 3	(176)
Community Development Block Grant	(197,515)
Disaster Recovery	(3,644)

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

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3. CASH AND INVESTMENTS

Cash and investments are presented on the Statement of Net Position as follows at June 30, 2013:

	Government-Wide Statement of Net Position			Fiduciary Funds	
	Governmental Activities	Business- Type Activities	Total	Statement of Net Position	Total
Cash and investments	\$ 55,257,249	\$ 23,037,950	\$ 78,295,199	\$ 1,730,549	\$ 80,025,748
Restricted cash and investments with fiscal agents	1,642,889	4,099,468	5,742,357	-	5,742,357
Total	\$ 56,900,138	\$ 27,137,418	\$ 84,037,556	\$ 1,730,549	\$ 85,768,105

Cash, cash equivalents, and investments consisted of the following at June 30, 2013:

Cash and cash equivalents:	
Petty cash	\$ 17,050
Demand deposits - City	8,703,319
Demand deposits - Successor Agency	988,914
Total cash and cash equivalents	<u>9,709,283</u>
Investments:	
Local Agency Investment Fund (LAIF) - City	30,263,190
Local Agency Investment Fund (LAIF) - Successor Agency	30,692
Time deposits	250,000
Negotiable certificates of deposit	3,468,588
Corporate Bonds	17,686,935
US Government Securities	18,617,060
Total investments	<u>70,316,465</u>
Total cash and investments	<u>80,025,748</u>
Cash and investments with fiscal agent	5,742,357
Total	<u>\$ 85,768,105</u>

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3. CASH AND INVESTMENTS, (Continued)

A. *Cash Deposits*

The carrying amounts of the City's cash deposits were \$8,703,463 at June 30, 2013. Bank balances at June 30, 2013, were \$8,880,421 which were fully insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

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

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

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

B. *Investments*

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

- United States Treasury Bills, Notes and Bonds
- Obligations issued by the Federal Government
- Bankers' Acceptances with a maturity of 180 days or less
- Time Certificates of Deposits
- Negotiable Certificates of Deposit
- Commercial Paper with a maturity of 270 days or less
- Local Agency Investment Fund (LAIF)

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3. CASH AND INVESTMENTS, (Continued)

B. *Investments, (Continued)*

- 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
- Certificate of Deposit Placement Services
- Collateralized Bank Deposits

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, 2013, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

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

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

As of June 30, 2013, the City had \$30,263,190 invested in LAIF, which had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.000273207 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, 2013, all MTN's were rated "A" or higher by Moody's. As of June 30, 2013, 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, 2013, the City's investments in external investment pools are unrated.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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3. CASH AND INVESTMENTS, (Continued)

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

Custodial Credit Risk

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

As of June 30, 2013, 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, 2013, in accordance with GASB Statement No. 40, if a City has invested more than 5% of its total investments in any one issuer, they are exposed to concentration of credit risk.

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

		<u>% of Total Investments</u>
Federal National Mortgage Association	\$ 8,830,400	13%
Federal Home Loan Mortgage Corp.	4,909,390	7%
	<u>\$ 13,739,790</u>	<u>20%</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

3. CASH AND INVESTMENTS, (Continued)

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

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 50% of the City's portfolio shall mature in three years or less; and at least 25% in one year or less. The only exception to these maturity limits shall be the investment of the gross proceeds of tax exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2013, the City had the following investments and remaining maturities:

Investment Types	Investment Maturities				Fair value
	Up to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	
External Investment Pools -					
Local Agency Investment Fund	\$ 30,293,882	\$ -	\$ -	\$ -	\$ 30,293,882
Time deposits	-	250,000	-	-	250,000
Negotiable certificate of deposits	-	1,247,728	498,893	1,721,967	3,468,588
Federal Agencies					
Federal Farm Credit Bank	-	-	-	1,957,560	1,957,560
Federal Home Loan Bank	-	-	-	2,919,710	2,919,710
Federal Home Loan Mortgage Corp.	-	-	-	4,909,390	4,909,390
Federal National Mortgage Assoc.	-	-	-	8,830,400	8,830,400
Corporate Bonds	1,003,210	2,590,205	5,147,010	8,946,510	17,686,935
Total Investments	<u>\$ 31,297,092</u>	<u>\$ 4,087,933</u>	<u>\$ 5,645,903</u>	<u>\$ 29,285,537</u>	<u>\$ 70,316,465</u>

4. RECEIVABLES

The following is a summary of receivables net of allowances for uncollectible amounts at June 30, 2013:

	Government-Wide Statement of Net Position		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Position	
Accounts receivable	\$ 1,230,402	\$ 578,024	\$ 125,349	\$ 1,933,775
Interest receivable	258,860	58,928	521	318,309
Taxes receivable	3,871,288	-	-	3,871,288
Loans receivable	4,381,492	160,792	-	4,542,284
Total	<u>\$ 9,742,042</u>	<u>\$ 797,744</u>	<u>\$ 125,870</u>	<u>\$ 10,665,656</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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4. RECEIVABLES, (Continued)

A. *Fund Financial Statements*

At June 30, 2013, 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, 2013, was as follows:

<b>Governmental Funds:</b>	
General Fund	\$ 954,976
Other Governmental Grants - Special Revenue Fund	125,000
Public Financing Authority - Debt Service Fund	14,501
Non-Major Funds	<u>121,204</u>
Total Governmental Funds	<u>1,215,681</u>
<b>Proprietary Funds:</b>	
Harbor Tidelands - Enterprise Fund	220,582
Harbor Uplands - Enterprise Fund	155,827
Wastewater Fund - Enterprise Fund	60,742
Solid Waste - Enterprise Fund	98,340
Transit - Enterprise Fund	42,533
Internal Service Funds	<u>14,721</u>
Total Proprietary Funds	<u>592,745</u>
<b>Fiduciary Funds</b>	
Agency Funds	5,469
Redevelopment Obligation Retirement Fund	<u>119,880</u>
Total Fiduciary	<u>125,349</u>
<b>Total Accounts Receivable</b>	<u><u>\$ 1,933,775</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013, was as follows:

**Governmental Funds:**

General Fund	\$ 221,851
Other Governmental Grants - Special Revenue Fund	1,148
Public Financing Authority - Debt Service Fund	99
Non-Major Funds	35,762
Total Governmental Funds	<u>258,860</u>

**Proprietary Funds:**

Harbor Tidelands - Enterprise Fund	48,187
Harbor Uplands - Enterprise Fund	7,959
Transit - Enterprise Fund	2,782
Total Proprietary Funds	<u>58,928</u>

**Fiduciary Funds**

Agency Funds	502
Redevelopment Obligation Retirement Fund	19
Total Fiduciary Funds	<u>521</u>
<b>Total</b>	<u><u>\$ 318,309</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

4. RECEIVABLES, (Continued)

C. *Taxes Receivable*

At June 30, 2013, the City had the following taxes receivable:

	<u>Governmental Funds</u>	
	General Fund	
<b>Type of Taxes:</b>		
Property Taxes	\$	547,633
Sales Taxes		1,269,600
Transient Occupancy Taxes		358,084
Utility Users Taxes		587,134
Transfer Taxes		160,479
Public Safety Augmentation Fund Taxes		110,493
Triple Flip		837,865
Total taxes	<u>\$</u>	<u>3,871,288</u>

D. *Loans Receivable*

At June 30, 2013, the City had the following loans receivable:

	<u>Governmental Funds</u>		<u>Proprietary Funds</u>		Total
	General 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	-	2,924,877	-		2,924,877
Computer Program	21,430	-	-		21,430
Harbor Area Business Loans	-	-	160,792		160,792
Total	<u>\$ 21,430</u>	<u>\$ 4,360,062</u>	<u>\$ 160,792</u>		<u>\$ 4,542,284</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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4. RECEIVABLES, (Continued)

D. *Loans Receivable, (Continued)*

Home Rehabilitation Loans

At June 30, 2013, the City was owed, in its Low and Moderate Income Housing Asset Special Revenue 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, 2013, 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.

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, 2013, the loan receivable balance was \$21,430.

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, 2013, the loan receivable included accrued interest of \$724,877.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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4. RECEIVABLES, (Continued)

D. *Loans Receivable, (Continued)*

Harbor Area Business Loans

At June 30, 2013, the City's Harbor Tidelands Enterprise Fund was owed \$160,792 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. Included in the \$160,792, the City's Harbor Tidelands Enterprise Fund was owed \$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.

5. INTERFUND TRANSACTIONS

A. *Government-Wide Financial Statements*

Internal Balances

At June 30, 2013, the City had the following internal receivables and payables for covering cash shortfalls:

	Internal Balances Receivable
	Business-Type Activities
Internal Balances Payable	
Governmental Activities	\$ 236,933

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

5. INTERFUND TRANSACTIONS, (Continued)

Transfers

The City had the following transfers as of June 30, 2013:

	Transfers In
	Business-Type Activities
Transfers Out	
Governmental Activities	\$ 1,202,508

B. *Fund Financial Statements*

Due to/from Other Funds

The City had the following due to/from other funds as of June 30, 2013:

Due to Other Funds	Due from Other Funds		
	General Fund	Harbor Tidelands	Total
		Enterprise Fund	
Public Financing Authority	\$ 30,189	\$ 236,933	\$ 267,122
Internal Service Funds	20,993	-	20,993
Non-Major Governmental Funds	274,817	-	274,817
Total	\$ 325,999	\$ 236,933	\$ 562,932

The General Fund has amounts due from the Public Financing Authority Fund of \$30,189 for reimbursement of expenditures made on the Public Financing Authority's behalf, \$20,993 from Internal Services funds for deficit cash reimbursement, and from the Non-Major Governmental Funds of \$88,740 for temporary cash deficits and \$191,077 for 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 \$236,933 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, 2013**

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5. INTERFUND TRANSACTIONS, (Continued)

B. *Fund Financial Statements, (Continued)*

Advances to Other Funds

The City had the following long-term advance to other funds as of June 30, 2013:

	Advance to Other Funds
Advance from Other Funds	General Fund
Public Financing Authority	\$ 1,195,660

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, 2013, the amount owed on the loan was \$1,195,660.

Advances to Other Government

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 from an Advance to Other Funds to a Due from Other Governments in the Public Financing Authority Debt Service Fund. 2001 Pier Refinancing Bond was paid off in the fiscal year 2012-13. The Agency's remaining balances as of June 30, 2013 was \$6,280,000.

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, 2013, loans and accrued unpaid interest owed on those loans were \$7,903,737.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

5. INTERFUND TRANSACTIONS, (Continued)

B. Fund Financial Statements, (Continued)

Transfers

The City had the following transfers as of June 30, 2013:

Transfers Out	Transfers In					Total
	General Fund	Other Intergovernmental Grants	Non-Major Funds	Enterprise Funds	Internal Service Funds	
General Fund	\$ -	\$ -	\$ 1,943,237	\$ -	\$ -	\$ 1,943,237
Enterprise Funds:						
Harbor Tidelands	82,190	-	-	-	-	82,190
Non-Major Governmental Funds	456,175	440,600	-	1,284,698	312,607	2,494,080
Internal Service Funds	301,500	-	-	-	134,239	435,739
Total	\$ 839,865	\$ 440,600	\$ 1,943,237	\$ 1,284,698	\$ 446,846	\$ 4,955,246

The General Fund transferred out a total of \$1,943,237 to various funds consisting of \$1,076,710 to cover expenditures in the Street Landscaping and Lighting District Non-Major Governmental Fund, \$26,527 to Measure R Fund for prior year interest allocation, and \$840,000 to Capital Projects Fund for the new police station pre-development work.

Internal Service Funds transferred \$301,500 to the General Fund for Fire Department overtime.

Transfers between the Harbor Tidelands Enterprise Fund and the General Fund of \$82,190 were for the property tax in lieu fee.

Transfers from the Non-Major Governmental Funds in the amount of \$2,494,080 consisted of a \$1,284,698 transfer of a transit subsidy to the Transit Fund, \$456,175 to the General Fund for March, 2013 election and review of AES new power plant application, \$440,600 from Capital Projects Fund to Other Governmental Revenue fund for correction of prior year Proposition 1B revenue, and \$312,607 transfer to Internal Service Fund for correction of prior year revenue from sale of Land Rover property.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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, 2013, 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	5,717,382	684,062	6,401,444
Work in progress	1,003,491	-	1,003,491
Infrastructure - streets	54,054,036	-	54,054,036
	<u>77,297,856</u>	<u>12,007,317</u>	<u>89,305,173</u>
Depreciable assets:			
Buildings and improvements	45,979,533	30,708,383	76,687,916
Furniture and equipment	8,179,300	648,679	8,827,979
Automotive equipment	13,264,780	3,688,786	16,953,566
Leased equipment	2,052,274	25,487,615	27,539,889
Infrastructure	72,930,070	-	72,930,070
Total depreciable assets	<u>142,405,957</u>	<u>60,533,463</u>	<u>202,939,420</u>
Less accumulated depreciation for:			
Buildings and improvements	(16,982,445)	(15,266,076)	(32,248,521)
Furniture and equipment	(6,554,869)	(645,613)	(7,200,482)
Automotive equipment	(7,382,830)	(2,055,975)	(9,438,805)
Leased equipment	(721,477)	(10,769,976)	(11,491,453)
Infrastructure	(45,081,415)	-	(45,081,415)
Total accumulated depreciation	<u>(76,723,036)</u>	<u>(28,737,640)</u>	<u>(105,460,676)</u>
Total depreciable assets, net	<u>65,682,921</u>	<u>31,795,823</u>	<u>97,478,744</u>
Total capital assets, net	<u>\$ 142,980,777</u>	<u>\$ 43,803,140</u>	<u>\$ 186,783,917</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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 1, 2012	Additions	Deletions	Reclassifications	Balance at June 30, 2013
Non-depreciable assets:					
Land	\$ 16,522,947	\$ -	\$ -	\$ -	\$ 16,522,947
Construction in progress	7,230,335	2,167,658	-	(3,680,611)	5,717,382
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>2,167,658</u>	<u>-</u>	<u>(3,680,611)</u>	<u>77,297,856</u>
Depreciable assets:					
Buildings and improvements	45,219,249	93,414	-	666,870	45,979,533
Furniture and equipment	8,146,237	48,063	(15,000)	-	8,179,300
Automotive equipment	11,180,009	2,482,376	(397,605)	-	13,264,780
Leased equipment	1,593,631	458,643	-	-	2,052,274
Infrastructure	72,353,998	177,269	(69,434)	468,237	72,930,070
Total depreciable assets	<u>138,493,124</u>	<u>3,259,765</u>	<u>(482,039)</u>	<u>1,135,107</u>	<u>142,405,957</u>
Less accumulated depreciation for:					
Buildings and improvements	(15,991,540)	(990,905)	-	-	(16,982,445)
Furniture and equipment	(6,229,495)	(340,374)	15,000	-	(6,554,869)
Automotive equipment	(6,894,101)	(886,334)	397,605	-	(7,382,830)
Leased equipment	(721,477)	-	-	-	(721,477)
Infrastructure	(43,533,553)	(1,617,296)	69,434	-	(45,081,415)
Total accumulated depreciation	<u>(73,370,166)</u>	<u>(3,834,909)</u>	<u>482,039</u>	<u>-</u>	<u>(76,723,036)</u>
Total depreciable assets, net	<u>65,122,958</u>	<u>(575,144)</u>	<u>-</u>	<u>1,135,107</u>	<u>65,682,921</u>
Governmental activities capital assets, net	<u>\$ 143,933,767</u>	<u>\$ 1,592,514</u>	<u>\$ -</u>	<u>\$ (2,545,504) *</u>	<u>\$ 142,980,777</u>

\* Capital asset contribution from governmental fund to proprietary fund

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013 as follows:

**Governmental Activities:**

General government	\$	156,723
Public safety		193,266
Public works		2,202,484
Culture and leisure services		342,102
Housing and community development		2,546

**Internal Service Funds:**

Vehicle Replacement		785,462
Building Occupancy		2,280
Information Technology		78,775
Emergency Communications		71,271

<b>Total depreciation expense</b>	<b>\$</b>	<b>3,834,909</b>
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**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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, 2013:

	Balance at July 1, 2012	Additions	Reclassifications	Balance at June 30, 2013
Nondepreciable assets:				
Land	\$ 11,323,255	\$ -	\$ -	\$ 11,323,255
Construction in progress	-	665,306	18,756	684,062
Total non-depreciable	<u>11,323,255</u>	<u>665,306</u>	<u>18,756</u>	<u>12,007,317</u>
Depreciable assets:				
Buildings and improvements	28,006,415	176,335	2,525,633	30,708,383
Furniture and equipment	648,679	-	-	648,679
Automotive equipment	3,402,779	286,007	-	3,688,786
Infrastructure	24,324,980	1,161,520	1,115	25,487,615
Total depreciable assets	<u>56,382,853</u>	<u>1,623,862</u>	<u>2,526,748</u>	<u>60,533,463</u>
Less accumulated depreciation:				
Buildings and improvements	(14,650,139)	(615,937)	-	(15,266,076)
Furniture and equipment	(643,126)	(2,487)	-	(645,613)
Automotive equipment	(1,805,542)	(250,433)	-	(2,055,975)
Infrastructure	(10,447,857)	(322,119)	-	(10,769,976)
Total accumulated depreciation	<u>(27,546,664)</u>	<u>(1,190,976)</u>	<u>-</u>	<u>(28,737,640)</u>
Total depreciable assets, net	<u>28,836,189</u>	<u>432,886</u>	<u>2,526,748</u>	<u>31,795,823</u>
Business-type activities capital assets, net	<u>\$ 40,159,444</u>	<u>\$ 1,098,192</u>	<u>\$ 2,545,504</u>	<u>* \$ 43,803,140</u>

\* Capital asset contribution from governmental fund to proprietary fund

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

6. CAPITAL ASSETS, (Continued)

Depreciation expense for business-type activities for the fiscal year ended June 30, 2013 was charged as follows:

Harbor Tidelands	\$ 468,007
Harbor Uplands	273,886
Wastewater	202,589
Solid Waste	16,224
Transit	230,270
<b>Total depreciation expense</b>	<b>\$ 1,190,976</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 Position.

7. COMPENSATED ABSENCES PAYABLE

The following is a summary of compensated absences payable transactions for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Classification	
					Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental Activities:</b>						
Compensated absences payable	\$ 2,672,555	\$ 2,148,334	\$ (2,360,156)	\$ 2,460,733	\$ 162,323	\$ 2,298,410
<b>Business-Type Activities</b>						
Compensated absences payable	353,349	360,430	(335,860)	377,919	24,934	352,985
<b>Total</b>	<b>\$ 3,025,904</b>	<b>\$ 2,508,764</b>	<b>\$ (2,696,016)</b>	<b>\$ 2,838,652</b>	<b>\$ 187,257</b>	<b>\$ 2,651,395</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, 2013**

8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental Activities:						
PFA 2001 Refunding Revenue Bonds	\$ 740,000	\$ -	\$ (740,000)	\$ -	\$ -	\$ -
PFA 2008 Refunding Revenue Bonds	5,485,000	-	(640,000)	4,845,000	665,000	4,180,000
Unamortized bond premium	132,917	-	(18,989)	113,928	18,989	94,939
County Deferral Loans	-	-	-	-	-	-
Capital Leases	883,936	458,644	(458,488)	884,092	439,198	444,894
<b>Total governmental activities</b>	<b>\$ 7,241,853</b>	<b>\$ 458,644</b>	<b>\$ (1,857,477)</b>	<b>\$ 5,843,020</b>	<b>\$ 1,123,187</b>	<b>\$ 4,719,833</b>
Business-Type Activities:						
Wastewater Revenue Bond 2004, Series A	\$ 8,735,000	\$ -	\$ (235,000)	\$ 8,500,000	\$ 245,000	\$ 8,255,000
Unamortized bond discount	(52,231)	-	2,374	(49,857)	(2,374)	(47,483)
Boating and Waterways						
Construction Loan 88-21-84	852,791	-	(90,917)	761,874	95,009	666,865
Boating and Waterways						
Construction Loan 89-21-147	2,082,795	-	(192,815)	1,889,980	201,491	1,688,489
<b>Total business-type activities</b>	<b>\$ 11,618,355</b>	<b>\$ -</b>	<b>\$ (516,358)</b>	<b>\$ 11,101,997</b>	<b>\$ 539,126</b>	<b>\$ 10,562,871</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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 replaced 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 18, 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 became the owner of the 2001 bonds and required interest-only payments of 10.00% until the bonds could be refinanced. The 2001 Revenue Bond were paid off as of June 30, 2013.

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, 2013, the balance outstanding was \$4,845,000, with an unamortized premium of \$113,928.

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.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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8. LONG-TERM DEBT, (Continued)

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2013, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 665,000	\$ 193,800	\$ 858,800
2015	695,000	167,200	862,200
2016	715,000	139,400	854,400
2017	745,000	110,800	855,800
2018	775,000	81,000	856,000
2019-2020	1,250,000	67,800	1,317,800
Total	<u>\$ 4,845,000</u>	<u>\$ 760,000</u>	<u>\$ 5,605,000</u>

The following is a summary of the 2008 Refunding Revenue unamortized premium outstanding at June 30, 2013:

Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<u>\$ 132,917</u>	<u>\$ -</u>	<u>\$ (18,989)</u>	<u>\$ 113,928</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013, was \$884,092.

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

	<u>June 30, 2013</u>
Equipment under capitalized lease, at cost	2,052,274
Accumulated depreciation	<u>(721,477)</u>
Equipment under capitalized lease, net	<u><u>\$ 1,330,797</u></u>

The annual debt service requirements outstanding at June 30, 2013 were as follows:

<u>For the Years</u> <u>Ending June 30,</u>	<u>Total</u> <u>Payments</u>
2014	\$ 439,198
2015	256,756
2016	92,293
2017	94,866
2018	979
<b>Total</b>	<u><u>\$ 884,092</u></u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013, the balance outstanding was \$8,500,000, with an unamortized bond discount of \$49,857. Principal and interest paid for the current year and total revenues for the Wastewater Fund were \$235,000, \$442,050, and \$3,764,711, respectively.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2013, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	290,000	370,713	660,713
2019-2023	1,680,000	1,630,137	3,310,137
2024-2028	2,130,000	1,170,000	3,300,000
2029-2033	2,730,000	580,000	3,310,000
2034	630,000	31,500	661,500
Total	<u>\$ 8,500,000</u>	<u>\$ 5,385,950</u>	<u>\$ 13,885,950</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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8. LONG-TERM DEBT, (Continued)

The following is a summary of the 2004 Revenue Bond Series A unamortized discount outstanding at June 30, 2013:

Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
\$ (52,231)	\$ -	\$ 2,374	\$ (49,857)

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, 2013, the balance outstanding was \$761,874.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	113,300	15,993	129,293
2019-2021	242,108	16,462	258,570
Total	\$ 761,874	\$ 143,161	\$ 905,035

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013, the balance outstanding was \$1,889,980.

The annual debt service requirements for the Boating and Waterways Construction indebtedness outstanding at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	240,282	46,258	286,540
2019-2021	787,681	71,931	859,612
Total	<u>\$ 1,889,980</u>	<u>\$ 402,332</u>	<u>\$ 2,292,312</u>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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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, 2013
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	\$ 3,790,196

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 \$951,746. The balance as of June 30, 2013 was \$9,455,149.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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10. OPERATING LEASE INCOME, (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, 2013:

Year Ending June 30,	Minimum Future Lease Rentals
2014	\$ 5,466,956
2015	5,713,956
2016	5,623,956
2017	5,623,956
2018	3,608,906
2019-2023	16,753,781
2024-2028	14,488,537
2029-2033	13,548,831
2034-2038	12,836,599
2039-2043	12,933,059
2044-2048	9,978,179
2049-2053	9,822,659
2054-2058	9,822,659
2059-2063	8,382,155
2064-2068	2,807,021
2069	514,767
Totals	<u>\$ 137,925,977</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, 2013**

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11. RISK MANAGEMENT

The City is exposed to risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; and currently reports all of its risk management activities in its Self-Insurance Program Internal Service Fund.

The City has adopted a self-insurance workers' compensation program, which is administered by a third-party agent, AdminSure. The self-insurance coverage for each claim is limited to \$750,000. Excess coverage of up to \$5,000,000 for each claim is provided by the Independent Cities Risk Management Authority (ICRMA), an insurance pool, in which a consortium of cities has agreed to share risks and losses. As of June 30, 2013, the estimated claims payable for workers' compensation was \$13,827,323, which included claims incurred but not reported (IBNR). The current year's portion of the claims was \$637,563.

For general liability claims, the City is also self-insured up to \$500,000 for each occurrence. The self-insurance program is administered by a third-party agent, AdminSure. Each claim in excess of the self-insured retention of up to \$2,000,000 is covered by the ICRMA. There is also excess coverage in the amount of \$18 million.

As of June 30, 2013, the estimated claims payable for general liability was \$2,499,971, which included IBNR. The current year's portion was \$165,022. Governmental activities claims and judgments are generally liquidated by the General Fund.

	Liability on June 30, 2013
General Liability	\$ 2,499,971
Workers' Compensation	13,827,323
Total	<u>\$ 16,327,294</u>

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

The estimated claims payable for workers' compensation and general liability is based on estimates provided by the third-party administrator, the City Attorney, the Risk Management staff, and ICRMA's actuary.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

11. RISK MANAGEMENT, (Continued)

Changes in the reported liability resulted from the following:

Year Ended June 30,	Balance July 01, 2012	Additions	Deletions	Amounts Balance June 30, 2013	Amounts Due Within One Year	Due in More than One Year
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
2013	14,828,821	608,744	889,729	16,327,294	802,585	15,524,709

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.

11. RISK MANAGEMENT, (Continued)

Condensed Financial Information of the ICRMA

Condensed audited financial information of ICRMA as of June 30, 2012 (most recent information available) is as follows:

<b>Assets</b>	<b>Total</b>
	<b>\$ 64,085,174</b>
Liabilities of member cities	\$ 28,787,592
Net assets	35,297,582
<b>Total liabilities and net assets</b>	<b>\$ 64,085,174</b>
Revenues	\$ 19,847,624
Cost and expenses	18,569,953
Net income	2,507,608
Net assets - July 1, 2011	32,789,974
Net assets - June 30, 2012	<b>\$ 35,297,582</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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12. EMPLOYEE RETIREMENT PLANS

A. *Pension Plan*

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California, 95814. The City has a multiple-tier retirement plan with benefits varying by plan.

Funding Policy - Active plan members are required by State statute to contribute a percentage of their annual covered salary. The following table details the contribution percentages and the portion of those percentages paid by the City, as employer, on their behalf and for their accounts. The City's portion amounted to \$2,244,633 for the year ended June 30, 2013.

<b>Pension Plan</b>	<b>Employee Contribution Percentage</b>	<b>City Portion</b>	<b>Employee Portion</b>
Miscellaneous Tier 1	7.00%	7.00%	0.00%
Miscellaneous Tier 2	7.00%	0.00%	7.00%
Miscellaneous Tier 3	6.50%	0.00%	6.50%
Fire Tier 1	9.00%	9.00%	0.00%
Fire Tier 2	9.00%	4.50%	4.50%
Fire Tier 3	11.25%	0.00%	11.25%
Police Tier 1	9.00%	9.00%	0.00%
Police Tier 2	9.00%	9.00%	0.00%
Police Tier 3	11.25%	11.25%	0.00%

[1] Employees hired on or before June 25, 2012

[2] Employees hired after June 25, 2012 and classic members of the PERS system

[3] Employees hired on or after January 1, 2013 and new to the PERS system

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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12. EMPLOYEE RETIREMENT PLANS, (Continued)

B. Pension Plan, (Continued)

The City is required to contribute for fiscal year 2012-13 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 2012-13, the City's annual pension cost of \$10,090,495 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
06/30/2011	\$ 9,646,142	100%	\$ -
06/30/2012	10,085,958	100%	-
06/30/2013	10,090,495	100%	-

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

12. EMPLOYEE RETIREMENT PLANS, (Continued)

A. Pension Plan, (Continued)

*Funding Status as of the Most Recent Actuarial Date:*

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

	(A)	(B)	Safety Plan (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)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability				
06/30/2011	\$ 217,038,991	\$ 268,946,368	\$ 51,907,377	80.7%	\$ 14,954,415	347.1%
	(A)	(B)	Miscellaneous Plan (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)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability				
06/30/2011	\$ 129,874,269	\$ 148,638,920	\$ 18,764,651	87.4%	\$ 18,657,247	100.6%

\* Most recent information available

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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12. EMPLOYEE RETIREMENT PLANS, (Continued)

B. *Other Post Employment Benefits*

*Plan Descriptions and Eligibility.* In addition to the pension benefits described above, the City provides certain health insurance benefits, in accordance with memorandums of understanding, to retired employees through the California Employers' Retiree Benefit Trust (CERBT) Fund, which is an agent multiple-employer plan administered by CalPERS. The City provides medical insurance for all employees who retire with a minimum of 20 years of full-time public agency service. The City shall pay the single retiree medical premium rate, for qualified retirees, for a medical insurance plan in which the retiree is enrolled from among those medical plans provided by the City. These contributions of the City for such medical premiums shall cease on the date the retiree becomes eligible to enroll in the Federal Medicare program and/or any Medicare supplemental plans. At June 30, 2013, 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 2013, the City contributed \$1,354,077 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	\$ 1,354,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,354,000</u>
Contributions made	<u>(1,354,000)</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, 2013**

12. EMPLOYEE RETIREMENT PLANS, (Continued)

B. *Other Post Employment Benefits, (Continued)*

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2013	\$ 1,354,000	\$ 1,354,000	100%	\$ -

*Funded Status and Funding Progress.* As of June 30, 2011, the most recent actuarial valuation date, the plan was 21.1 percent funded. The Actuarial Accrued Liability for benefits was \$20,086,000, and the actuarial value of assets was \$4,245,000, resulting in a VAAL of \$15,841,000. The actual covered payroll (annual payroll of active employees covered by the plan) was \$30,774,470 and the ratio of VAAL to the covered payroll was 51%.

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)	Actual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll (C/E)
06/30/2011	\$ 4,245,000	\$ 20,086,000	\$ (15,841,000)	21.1%	\$ 30,774,470	-51.47%

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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12. EMPLOYEE RETIREMENT PLANS, (Continued)

B. *Other Post Employment Benefits, (Continued)*

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

In the June 30, 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 CalPERS, and an annual healthcare cost trend rate of actual premiums, which is reduced over eight 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.

13. COMMITMENTS AND CONTINGENCIES

A. *Lawsuits*

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

B. *Federal and State Grant Programs*

The City participates in Federal and State grant programs. These programs are subject to audit. No cost disallowance is expected as a result of any audits. Expenditures which may be disallowed, if any, by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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13. COMMITMENTS AND CONTINGENCIES, (Continued)

C. *Commitments*

As of June 30, 2013, 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 has filed regulatory notice of violations against the City regarding issues with Seaside Lagoon water quality discharges to the harbor. The City has appealed the violations to the State Water Board. At this time, potential fines, assessments, and settlements are estimated as likely not to exceed \$51,000.

The City Council approved an Asset Management Plan for the Waterfront on December 18, 2007, and the Harbor Enterprise Business Plan on August 24, 2010. These documents, serve as the blueprint for the City's waterfront revitalization efforts. One of the central strategies in the Asset Management Plan is the consolidation of underutilized pier area leaseholds into larger, single leasehold to promote the highest and best use of these properties through new private sector investment.

In February 2012, the City entered into an agreement for the Pier Plaza Leasehold and financing from Compass Bank is in the form of a Lease, Leaseback through which the City receives an upfront one-time payment from Compass (lease) in exchange for a regular monthly payment of interest and principal from the City over twenty years (leaseback), much like a traditional loan. The purchase price for the leasehold is \$8.4 million. The money is provided at an interest rate which is fixed at 4.22% for seven years after which time the rate is variable. The seven year fixed term is arranged through a SWAP agreement with Compass Bank through which the City pays a slightly higher interest rate 4.22% in exchange for the certainty of the fixed rate for the seven year term.

In April 2012, the City entered into an agreement for the International Boardwalk Leasehold and received financing with Compass Bank in the form of a Lease, Leaseback through which the City receives an upfront one-time payment from Compass (lease) in exchange for a regular monthly payment of interest and principal from the City over twenty years (leaseback), much like a traditional loan. The property being leased for this transaction is the Plaza Parking structure that sits adjacent to the International Boardwalk. The Letter Agreement for Purchase document covers the broader terms of the transaction. The purchase price for the leasehold is \$2.9 million. The money is provided at an interest rate which will be fixed at approximately 4.25% for seven years after which time the rate is variable. The seven year fixed term is arranged through a SWAP agreement with Compass Bank through which the City pays a slightly higher interest rate (4.25%) in exchange for the certainty of the fixed rate for the seven year term. The SWAP agreement is laid out in more detail in the ISDA Master Agreement and Schedule to the ISDA Master Agreement.

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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13. COMMITMENTS AND CONTINGENCIES, (Continued)

The City's General Fund serves as the backstop in the event the Leaseholds fail to perform according to the terms as set forth in the agreements. The estimated outstanding balance on the Pier Plaza and International Boardwalk leaseholds as of June 30, 2013, is \$8 million, and \$2.6 million, respectively.

14. POLLUTION REMEDIATION OBLIGATIONS

The Department of Toxic Substances Control (DTSC) has filed regulatory Notice of Violations against the City regarding the Redondo Beach Police Department's gun range concerning issues with lead bullet fragments. Cleanup, potential fines, assessments, and settlements incurred by the City to date are approximately \$282,000. Additional cleanup and settlements currently are estimated to be \$150,000. This liability has been accrued in the General Fund.

**City of Redondo Beach**  
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15. 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
		Other Intergovernmental Grants	Public Financing Authority		Governmental Funds
<b>Nonspendable</b>					
Prepaid costs	\$ 99,401	\$ -	\$ -	\$ -	\$ 99,401
Notes and loans receivable	21,430	-	-	-	21,430
<b>Total nonspendable</b>	<b>120,831</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,831</b>
<b>Restricted</b>					
Debt service	-	-	6,818,696	-	6,818,696
Public safety	-	-	-	1,240,969	1,240,969
Public works	-	-	-	9,055,367	9,055,367
Low and moderate income housing	-	-	-	2,267,794	2,267,794
Housing and community development	-	-	-	3,446,778	3,446,778
<b>Total restricted</b>	<b>-</b>	<b>-</b>	<b>6,818,696</b>	<b>16,010,908</b>	<b>22,829,604</b>
<b>Committed</b>					
Contingency	5,889,783	-	-	-	5,889,783
<b>Total committed</b>	<b>5,889,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,889,783</b>
<b>Assigned</b>					
Capital improvement projects	124,785	-	-	3,113,179	3,237,964
General government	355,074	-	-	-	355,074
Public safety	56,661	-	-	-	56,661
Housing and community development	95,119	-	-	-	95,119
Cultural and leisure services	4,266	-	-	-	4,266
Public works	123,624	-	-	-	123,624
Carryover assignments	1,233,888	-	-	-	1,233,888
Compensated absences	607,602	-	-	-	607,602
Petty cash	17,050	-	-	-	17,050
Self-insurance program	2,650,000	-	-	-	2,650,000
Union Offer Increase	332,381	-	-	-	332,381
Compensation restoration	861,248	-	-	-	861,248
Contingency	1,000,000	-	-	-	1,000,000
CalPERS	3,813,747	-	-	-	3,813,747
<b>Total assigned</b>	<b>11,275,445</b>	<b>-</b>	<b>-</b>	<b>3,113,179</b>	<b>14,388,624</b>
<b>Unassigned</b>	<b>272,083</b>	<b>(1,044,377)</b>	<b>-</b>	<b>-</b>	<b>(772,294)</b>
<b>Total fund balance</b>	<b>\$ 17,558,142</b>	<b>\$ (1,044,377)</b>	<b>\$ 6,818,696</b>	<b>\$ 19,124,087</b>	<b>\$ 42,456,548</b>

16. 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).

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.

**City of Redondo Beach**  
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17. 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.

The debt of the Successor Agency as of June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	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
Bank of America Loan	-	693,000	-	693,000	99,000	594,000
City Loan - Principal - Harbor Center	4,288,426	-	-	4,288,426	-	4,288,426
City Loan - Interest - Harbor Center	3,590,101	25,208	-	3,615,309	-	3,615,309
City Loan (PFA) - Harbor Center	668,885	-	(668,885)	-	-	-
City Loan - South Bay Center	6,765,000	-	(485,000)	6,280,000	-	6,280,000
<b>Total</b>	<b>\$ 29,647,401</b>	<b>\$ 718,208</b>	<b>\$ (1,153,885)</b>	<b>\$ 29,211,724</b>	<b>\$ 99,000</b>	<b>\$ 29,112,724</b>

**City of Redondo Beach**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2013**

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17. 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, 2013, 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, 2013, was \$7,400,570.

**Bank of America Loan** - On December 1, 2012, the Agency entered into a note payable with Bank of America to pay off the City loan to Public Finance Agency of \$693,000. The note principal balance is payable annually in installments of \$99,000, and interest payments are made semi-annually at 5.75%. The final financing commitment expires September 1, 2019.

18. RISKS & 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.

B. *Successor Agency*

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2013 (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.