

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY

SIERRA MADRE, CALIFORNIA

*Basic Financial Statements
and Independent Auditors' Reports*

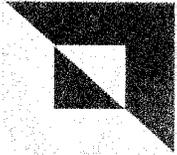
For the year ended June 30, 2010

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

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BERANEK CHAN AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board Members of the Redevelopment Agency
of the City of Sierra Madre
Sierra Madre, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Redevelopment Agency of the City of Sierra Madre (Agency), a component unit of the City of Sierra Madre, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the Agency as of June 30, 2010, and the respective changes in financial position where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 5, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 5, 2011
Arcadia, California

Berane Chan and Associates
Certified Public Accountants

Management Discussion and Analysis

The information presented in the “Management’s Discussion and Analysis” is intended to be a narrative overview of the Community Redevelopment Agency of the City of Sierra Madre’s (Agency) financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Agency exceeded its liabilities at the close of fiscal year June 30, 2010 by \$1,521,868 (net assets). Net Assets of \$2,152,925 is restricted for Low and moderate housing projects; of this \$1,682,998 is land purchased using Low and Moderate Housing funds. The Agency has outstanding long-term debt for redevelopment of assets of which the Agency does not own or subsequently contribute. (State law requires the Agency to operate only when in debt, please see page 7).
- The Agency’s total net assets increased by \$31,473 in fiscal year 2009-2010.
- As of the close of fiscal year June 30, 2010, the Agency’s governmental funds reported combined ending fund balances of \$4,676,576; an decrease of \$205,282 from the prior year. The decrease in ending fund balance is attributable to the State’s Supplemental Education Revenue Augmentation Fund (SERAF) payment. The City’s Agency SERAF payment was \$542,513 for FY 2009-2010 and is estimated to be \$224,000 for FY 2010-2011 and going forward.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Redevelopment Agency of the City Of Sierra Madre’s basic financial statements. The Agency’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements and required supplementary information, this report also contains a report on compliance and on internal control over financial reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

Government-Wide Financial Statements

The government-*wide financial statements* are designed to provide readers with a broad overview of the Agency’s finances. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the fiscal year’s revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus assets, liabilities and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

- The *Statement of Net Assets* presents all of the Agency’s assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Agency is improving or deteriorating.
- The *Statement of Activities* presents information showing the Agency’s revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support. Both of the

government-wide financial statements highlight functions of the Agency that are principally supported by property tax increment, interest earnings, and bond proceeds from prior years.

Redevelopment activities, in general, include providing needed public improvements, assisting with development and rehabilitation of existing properties, and providing low and moderate-income housing to eliminate or alleviate blighting conditions.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency only has governmental fund types.

- *Governmental funds* – Government funds are used to account for essentially the same functions reported as *governmental activities* in the agency-wide financial statements. However, unlike the agency-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the agency’s near-term financing requirements. Because the focus of governmental funds is narrower than that of the agency-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the agency-wide financial statements. By doing so, readers may better understand the long-term impact of the agency’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation on pages 12 and 14 to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains three individual governmental funds, of which all three are considered major funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances, for each of these funds.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and fund financial statements.

AGENCY-WIDE FINANCIAL ANALYSIS

Our agency-wide analysis focuses on the net assets and changes in net assets for the Agency’s governmental activities. A summary of the Agency’s net assets is as follows:

GOVERNMENTAL ACTIVITIES FOR AGENCY
Statement of Net Assets

	2009	2010
Assets		
Current assets	\$ 3,219,826	\$ 3,009,915
Other assets	1,682,998	1,682,998
Total assets	\$ 4,902,824	\$ 4,692,913
Liabilities		
Non-Current liabilities	\$ 327,429	\$ 331,045
Other liabilities	3,085,000	2,840,000
Total liabilities	\$ 3,412,429	\$ 3,171,045
Net assets		
Restricted	\$ 4,473,882	\$ 4,681,595
Unrestricted	-2,983,487	-3,159,727
Total net assets	\$ 1,490,395	\$ 1,521,868

GOVERNMENTAL ACTIVITIES FOR AGENCY
Statement of Activities and Changes in Net Assets

	2009	2010
Revenues:		
General revenues:		
Property taxes	\$ 1,410,502	\$ 1,414,596
Investment income	35,933	11,415
Total general revenues	\$ 1,446,435	\$ 1,426,011
Expenses:		
Economic development	\$ 1,035,138	\$ 1,238,413
Interest on long term debt	167,567	156,125
Total expenses	\$ 1,202,705	\$ 1,394,538
Changes in net assets	243,730	31,473
Net assets (deficit) – Beginning of year	1,246,665	1,490,395
Net assets (deficit) – End of year	\$ 1,490,395	\$ 1,521,868

As noted earlier, net assets may serve over time as a useful indicator of the agency's financial position. In the case of the Agency, it is \$1,521,868 at June 30, 2010, an increase of \$31,473 from the prior year.

Governmental Activities

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Governmental activities decreased the Agency's net assets by \$205,282. Key elements of this increase are as follows:

	2009	2010
Revenues:		
Taxes	\$ 1,410,502	\$ 1,414,596
Use of money and property	35,933	11,415
Total revenues	\$ 1,446,435	\$ 1,426,011
Expenses:		
Economic development	\$ 1,031,524	\$ 1,236,168
Debt Services:		
Principal	\$ 225,000	\$ 235,000
Interest	171,288	160,125
Capital Outlay	550	-
Total expenses	\$ 1,428,362	\$ 1,631,293
Other financing sources (uses)		
Transfers In	\$ 1,951,928	\$ 387,421
Transfers Out	-1,951,928	-387,421
Total other financing sources (uses)	\$ -	\$ -
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	18,073	-205,282
Fund Balance at June 30, 2009	4,863,776	4,881,849
Fund Balance at June 30, 2010	\$ 4,881,849	\$ 4,676,567

Property tax increment revenues are the Agency’s major revenue source. This revenue increased by \$4,000 or 0% from the prior year. This is a reflection of the current real estate decline. Investment earnings of \$11,415 were received from investments of available funds, a decrease of \$24,518 from the prior year due to the declining interest rate market. Expenditures increased by \$204,644. The Agency was aware of the State’s SERAF obligations of \$542,513 and wanted to use as little of the Agency’s reserves as possible to make the payment. The Agency board suspended most spending outside of direct staff costs to the Agency for fiscal year 2009-2010.

DEBT ADMINISTRATION

Long-Term Liabilities

The Agency, operating under California Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Bond funds may be used to acquire properties, construct buildings and infrastructure, and to alleviate blight. These expenditures do not generally create assets to offset bonded debt. Future tax increment revenues must be used to liquidate noncurrent bond liabilities. At the end of the current fiscal year, the Agency had total bonded debt of \$3,085,000 and they are secured solely by property tax increment revenue.

The Agency’s total debt decreased by \$235,000 during the current fiscal year, due to scheduled debt service payments made for the tax allocation bonds issued in 1998. Standard & Poor’s rates the Agency’s overall 1998-bond credit rating as AA. Annual debt service requirements on these bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$245,000	\$148,125	\$393,125
2012	255,000	135,625	390,625
2013	270,000	122,500	392,500
2014	285,000	108,625	393,625
2015	300,000	94,000	394,000
2016-2020	1,730,000	224,250	1,954,250
Total	\$3,085,000	\$833,125	\$3,918,125

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The Agency has recently adopted FY 2010-2015 Five Year Implementation Plan. Included in this plan (available on the City’s website www.cityofsierramadre.com), the Agency has provided the five year financial forecast for the Agency including the Low and moderate-income housing funds. The City Council provided four priorities for the discretionary funds, listed below in no particular order;

1. Completion of the Hart Park House renovation in Memorial Park
2. Provide grant funds to businesses in the Project Area for façade improvements
3. Paving and restriping of Project area parking lots
4. Appropriate funding for consultant to develop Highland Street property purchased with Low and moderate housing funds

The State budget is the greatest financial concern to the Agency. The State currently has won in court to continue taking the SERAF payments from the Agency's tax increment revenue, estimated at \$224,000 annually. The State's budget problems are still growing with an estimated \$20 billion short fall in FY 2010-2011. The new governor is looking towards redevelopment agencies as a possible solution to their financial problems. This leaves the future of all agencies uncertain.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Redevelopment Agency of the City of Sierra Madre, 232 W Sierra Madre Blvd., Sierra Madre, California 91024.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
<u>Assets:</u>	
Current assets:	
Cash and investments	\$ 2,555,750
Cash and investments with fiscal agents	401,575
Receivables:	
Taxes	42,294
Accounts	4,867
Interest	5,429
Land held for resale	1,682,998
Total current assets	<u>4,692,913</u>
Total assets	<u><u>4,692,913</u></u>
 <u>Liabilities:</u>	
Current liabilities:	
Accounts payable	6,688
Accrued payroll and related liabilities	9,658
Interest payable	49,375
Compensated absences	20,324
Bonds payable - due within one year	245,000
Total current liabilities	<u>331,045</u>
Non-current liabilities:	
Bonds payable - due in more than one year	2,840,000
Total non-current liabilities	<u>2,840,000</u>
Total liabilities	<u><u>3,171,045</u></u>
 <u>Net assets:</u>	
Restricted for:	
Debt service	2,528,670
Low and moderate housing	2,152,925
Total restricted	<u>4,681,595</u>
Unrestricted	<u>(3,159,727)</u>
Total net assets	<u><u>\$ 1,521,868</u></u>

See Accompanying Notes to Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/programs				
Governmental activities:				
Economic development	\$ 1,238,413	\$ -	\$ -	\$ (1,238,413)
Interest on long term debt	156,125	-	-	(156,125)
Total governmental activities	1,394,538	-	-	(1,394,538)
General revenues and transfers:				
Property taxes				1,414,596
Investment income				11,415
Total general revenues and transfers				1,426,011
Change in net assets				31,473
Net assets - beginning of year				1,490,395
Net assets - end of year				\$ 1,521,868

See Accompanying Notes to Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Balance Sheet

Governmental Funds

June 30, 2010

	<u>Capital Project Funds</u>			Total Governmental Funds
	<u>Debt Service</u>	<u>Non-Housing</u>	<u>Low & Moderate Housing</u>	
ASSETS				
Cash and investments	\$ 2,084,801	\$ -	\$ 470,949	\$ 2,555,750
Cash and investments with fiscal agents	401,575	-	-	401,575
Receivables:				
Taxes	42,294	-	-	42,294
Accounts	-	4,867	-	4,867
Interest	-	3,203	2,226	5,429
Due from other funds	-	-	4,046	4,046
Land held for resale	-	-	1,682,998	1,682,998
Total assets	<u>\$ 2,528,670</u>	<u>\$ 8,070</u>	<u>\$ 2,160,219</u>	<u>\$ 4,696,959</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ 4,223	\$ 2,465	6,688
Accrued payroll and related liabilities	-	4,829	4,829	9,658
Due to other funds	-	4,046	-	4,046
Total liabilities	<u>-</u>	<u>13,098</u>	<u>7,294</u>	<u>20,392</u>
Fund balances:				
Reserved for:				
Debt service	2,528,670	-	-	2,528,670
Low and moderate housing	-	-	2,152,925	2,152,925
Unreserved	-	(5,028)	-	(5,028)
Total fund balances	<u>2,528,670</u>	<u>(5,028)</u>	<u>2,152,925</u>	<u>4,676,567</u>
Total liabilities and fund balances	<u>\$ 2,528,670</u>	<u>\$ 8,070</u>	<u>\$ 2,160,219</u>	<u>\$ 4,696,959</u>

See Accompanying Notes to Basic Financial Statements.

**REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)**

**Reconciliation of the Balance Sheet of the Governmental Funds to the
Statement of Net Assets**

June 30, 2010

<u>Total Fund Balances Governmental Funds</u>	\$ 4,676,567
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet.	(49,375)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund:	
Bonds payable - due within one year	(245,000)
Bonds payable - due in more than one year	(2,840,000)
The liabilities for compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	<u>(20,324)</u>
<u>Statement of Net Assets</u>	<u>\$ 1,521,868</u>

See accompanying Notes to Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

Year Ended June 30, 2010

	Capital Projects			Total Governmental Funds
	Debt Service	Non-Housing	Low & Moderate Housing	
Revenues:				
Taxes	\$ 1,414,596	\$ -	\$ -	\$ 1,414,596
Use of money and property	-	11,415	-	11,415
Total revenues	1,414,596	11,415	-	1,426,011
Expenditures:				
Current:				
Economic development	549,081	528,912	158,175	1,236,168
Debt service:				
Principal	235,000	-	-	235,000
Interest	160,125	-	-	160,125
Total expenditures	944,206	528,912	158,175	1,631,293
Excess (deficiency) of revenues over (under) expenditures	470,390	(517,497)	(158,175)	(205,282)
Other financing sources (uses):				
Transfers in	-	104,502	282,919	387,421
Transfer out	(387,421)	-	-	(387,421)
Total other financing sources (uses)	(387,421)	104,502	282,919	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	82,969	(412,995)	124,744	(205,282)
Fund balances:				
Beginning of year	2,445,701	407,967	2,028,181	4,881,849
End of year	\$ 2,528,670	\$ (5,028)	\$ 2,152,925	\$ 4,676,567

See Accompanying Notes to Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities**

June 30, 2010

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$ (205,282)
<i>Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:</i>	
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as an expenditure in the governmental funds. The reconciling amount is the change in accrued interest from the prior year.	4,000
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Government Wide Statement of Net Assets.	235,000
Governmental funds do not report the long-term portion of compensated absences, while the Statement of Activities records such liabilities. Thus, the amount recorded is the change in liability for the year.	<u>(2,245)</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>\$ 31,473</u>

See accompanying Notes to Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America 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 Agency's accounting policies are described below.

A. Financial Reporting Entity

The Agency is a blended component unit of the City. It was established in November 1973, pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law." Its purpose is to prepare and carryout plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City. The City provides management assistance to the Agency and the members of the City Council also act as the governing body of the Agency.

The principal objectives of the Agency are to improve the commercial environment, upgrade residential neighborhoods, expand the industrial base, provide public improvements, enhance economic conditions, and create employment opportunities.

The Sierra Madre City Council serves as a governing body of the Agency, and the Agency contracts with the City for personnel, administrative, and support services. The Agency is considered a component unit of the City of Sierra Madre (the primary government) as defined by the Governmental Accounting Standards Board. Accordingly, the Agency's financial statements are also included in the City's Comprehensive Annual Financial Report.

Funds for redevelopment projects are provided from various sources, including incremental property tax revenues, tax allocation bonds, and advances from the City.

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency accompanied by a total column.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Certain types of transactions may be reported as program revenues for the Agency in three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

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. An accompanying schedule is presented to reconcile and explain the difference in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major funds.

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 that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Agency are property tax and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement 34.

C. Cash, Cash Equivalents and Investments:

The Agency pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money 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 quotation are readily available.

The Agency 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 determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Agency and are presented as "Cash and Investments" in the accompanying component unit financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosure* (An amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas:

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments (continued):

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

D. Cash and Investments with Fiscal Agents

Cash and investments with fiscal agents are restricted for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Land Held for Resale:

Land Held for Resale in the Capital Projects Fund is an inventory of land purchased by the Agency, which will be sold to developers. The land is recorded at the lower of acquisition cost or market. Fund balances in the Governmental Fund Financial Statements are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations.

F. Property Tax:

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, advances from the City. Additionally, broadened property tax exemptions could have a similar effect. Conversely, any increase in tax rate or assessed valuation, or any reduction or elimination of present exemptions, would increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans and advance from the City. The following dates relate to property tax levies and collections:

Lien Date	January 1
Levy Date	July 1
Due Dates	November 1 and February 1
Delinquent Dates	December 10 and April 10

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

In the fund financial statements, interest payable on long-term debt is not recognized as liability since it does not require the use of current financial resources.

H. Compensated Absences:

For government-wide financial statements, all vested vacation and compensatory leave time is recognized as an expense and as a liability at the time the liability vests. Governmental fund types recognize the vested vacation and compensatory time as expenditure in the current year to the extent that it is paid during the year.

I. Reservations and Designations of Fund Balances:

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balances be segregated or identify the portion of the fund balances not available for future expenditures. Designations of fund balances represent tentative management plans that are subject to change.

J. Use of Restricted/Unrestricted Net Assets:

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

Government-Wide

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of restricted net assets.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

Fund Equity – Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

K. Budgetary Policy and Control:

Budget amounts are reported as originally adopted and as further amended by the Agency Board. The differences between budgetary basis and GAAP fund balances as of June 30, 2010 were not material.

L. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments as reported in the accompanying balance sheet are as follows:

Cash and Investments	2,555,750
Cash and Investments Held by Fiscal Agent	401,575
Total	<u><u>\$ 2,957,325</u></u>

Cash and investments as of June 30, 2010 consisted of the following:

Agency Pooled Amounts	(1,359,880)
Deposits with Fiscal Agents	401,575
Investments with LAIF	3,915,630
Total	<u><u>\$ 2,957,325</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Pooled Cash with the City of Sierra Madre

Investments in the City of Sierra Madre cash pool cannot be assigned a credit risk category because the Agency does not own specific securities. However, the City's investment policies and practices with regard to the credit and market risks have been determined acceptable to the Agency's investment policies. Pooled advances from the City of Sierra Madre amounted to \$(1,359,880).

California Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The City may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. As of June 30, 2010, the Redevelopment Agency's balance was \$3,915,630.

Investments Authorized by the Entity's Investment Policy

The Agency's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The Agency's investment policy does not contain any specific provisions intended to limit the City's exposure to **interest rate risk, credit risk, and concentration of credit risk.**

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the **investment types** that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk, credit risk, and concentration of credit risk.**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Treasury Bills	None
Money Market Mutual Funds	N/A
Investment Contracts	30 years

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the LAIF investment pool is not available.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of the total Agency investments.

Custodial Credit Risk

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 its 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 (e.g. broker-seller) to a transaction, a government will not be able to recover the value of its investment. This does not apply to the Agency since custodial credit risk is not applicable to LAIF or bond trustee accounts.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2010:

	Outstanding June 30, 2009	Additions	Payments	Outstanding June 30, 2010
<i>Tax Increment Revenue Refunding Bonds, Series 1998A</i>	\$ 3,320,000	\$ -	\$ (235,000)	\$ 3,085,000

Sierra Madre Tax Increment Revenue Refunding Bonds, Series 1998A – Original Issue \$5,175,000

In May 1998, the Sierra Madre Financing Authority issued these bonds on behalf of the Sierra Madre Community Redevelopment Agency in prepayment of its Agency Loan Agreement dated November 1, 1988, by and between the Agency and the Authority.

The Tax Increment Revenue Refunding Bonds mature annually through November 1, 2019 in amounts ranging from \$155,000 to \$380,000 beginning November 1, 1999. The interest of the Tax Increment Revenue Refunding Bonds is payable semi-annually on May 1 and November 1, Commencing November 1, 1998. The Bonds are special obligations of the Authority secured by and payable solely from the tax rate of the Tax Increment Revenue Refunding Bonds, Series 1998A, ranging from 3.8% to 5.0%. The Tax Increment Revenue Refunding Bonds are subject to mandatory sinking redemption and redemption from optional loan prepayments prior to maturity.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

3. LONG-TERM DEBT (continued)

The outstanding balance of the Tax Increment Revenue Refunding Bonds, Series 1998A was \$3,085,000 at June 30, 2010. Annual debt service requirements on these bonds are as follows:

Year Ending	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011		245,000	148,125	393,125
2012		255,000	135,625	390,625
2013		270,000	122,500	392,500
2014		285,000	108,625	393,625
2015		300,000	94,000	394,000
2016-2020		<u>1,730,000</u>	<u>224,250</u>	<u>1,954,250</u>
Total		<u>\$ 3,085,000</u>	<u>\$ 833,125</u>	<u>\$ 3,918,125</u>

4. COMMITMENTS AND CONTINGENCIES

A. Grant Audits:

The Agency participates in Federal and State grant programs. These programs are audited by the Agency's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The Agency expects such amounts, if any, to be immaterial.

B. Litigation:

The Agency is involved in certain matters of litigation that have arisen in the normal course of operations. Agency management believes, based upon consultation with the Agency Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Agency management believes that the Agency's insurance programs are sufficient to cover any potential losses should an unfavorable outcome occur.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to the Basic Financial Statements
(continued)

5. SUBSEQUENT EVENTS

Evaluation of Subsequent Events

The Agency has evaluated subsequent events through January 5, 2011, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Debt Service

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual

Year Ended June 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual Amount	Final Budget
				Positive
				(Negative)
Revenues:				
Taxes	\$ 1,466,842	\$ 1,466,842	\$ 1,414,596	\$ (52,246)
Total revenues	1,466,842	1,466,842	1,414,596	(52,246)
Expenditures:				
Current:				
Economic development	99,155	99,155	549,081	(449,926)
Debt service:				
Principal	225,000	225,000	235,000	(10,000)
Interest	171,288	171,288	160,125	11,163
Total expenditures	495,443	495,443	944,206	(448,763)
Excess (deficiency) of revenues over (under) expenditures	971,399	971,399	470,390	(501,009)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfer out	-	-	(387,421)	(387,421)
Total other financing sources (uses)	-	-	(387,421)	(387,421)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	971,399	971,399	82,969	(888,430)
Fund balances:				
Beginning of year	2,445,701	2,445,701	2,445,701	-
End of year	\$ 3,417,100	\$ 3,417,100	\$ 2,528,670	\$ (888,430)

See accompanying Notes to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Non-Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual

Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
Revenues:				
Use of money and property	\$ 12,718	\$ 12,718	\$ 11,415	\$ (1,303)
Other	3,030	3,030	-	(3,030)
Total revenues	<u>15,748</u>	<u>15,748</u>	<u>11,415</u>	<u>(4,333)</u>
Expenditures:				
Current:				
Economic development	707,192	707,192	528,912	178,280
Total expenditures	<u>707,192</u>	<u>707,192</u>	<u>528,912</u>	<u>178,280</u>
Excess (deficiency) of revenues over (under) expenditures	(691,444)	(691,444)	(517,497)	173,947
Other financing sources (uses):				
Transfers in	-	-	104,502	104,502
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>104,502</u>	<u>104,502</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(691,444)	(691,444)	(412,995)	278,449
Fund balances:				
Beginning of year	<u>407,967</u>	<u>407,967</u>	<u>407,967</u>	<u>-</u>
End of year	<u>\$ (283,477)</u>	<u>\$ (283,477)</u>	<u>\$ (5,028)</u>	<u>\$ 278,449</u>

See accompanying Notes to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual

Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
Revenues:				
Use of money and property	\$ 75,750	\$ 75,750	\$ -	\$ (75,750)
Total revenues	<u>75,750</u>	<u>75,750</u>	<u>-</u>	<u>(75,750)</u>
Expenditures:				
Current:				
Economic development	239,213	239,213	158,175	81,038
Total expenditures	<u>239,213</u>	<u>239,213</u>	<u>158,175</u>	<u>81,038</u>
Excess (deficiency) of revenues over (under) expenditures	(163,463)	(163,463)	(158,175)	5,288
Other financing sources (uses):				
Transfers in	-	-	282,919	282,919
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>282,919</u>	<u>282,919</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(163,463)	(163,463)	124,744	288,207
Fund balances:				
Beginning of year	<u>2,028,181</u>	<u>2,028,181</u>	<u>2,028,181</u>	<u>-</u>
End of year	<u>\$ 1,864,718</u>	<u>\$ 1,864,718</u>	<u>\$ 2,152,925</u>	<u>\$ 288,207</u>

See accompanying Notes to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA
(A Component Unit of the City of Sierra Madre, California)

Notes to Required Supplementary Information

Year Ended June 30, 2010

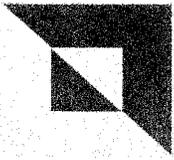
(1) BUDGETS AND BUDGETARY ACCOUNTING

The Agency adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The Executive Director or appointed designee is authorized to transfer budgeted amounts between the accounts of any department. Revisions that alter the total appropriations of any department or fund may be approved by Agency Board. There were no additional appropriations during the year. Prior year appropriations lapse unless they are approved for carryover into the following fiscal year. Expenditures may not legally exceed appropriations at the program level. Reserves for encumbrances are not recorded by the Agency.

(2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures for the year ended June 30, 2010 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Debt Service:			
Economic Development	99,155	549,081	(449,926)
Principal	225,000	235,000	(10,000)



BERANEK CHAN AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board Members of the Redevelopment Agency
of the City of Sierra Madre
Sierra Madre, California

We have audited the financial statements of the governmental activities, each major fund, of the Redevelopment Agency of the City of Sierra Madre (Agency), a component unit of the City of Sierra Madre, California, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

January 5, 2011
Arcadia, California

Beranek Chan and Associates
Certified Public Accountants